

BUDGET REFORM PROPOSALS

JOINT HEARINGS
BEFORE THE
COMMITTEE ON
GOVERNMENTAL AFFAIRS
AND THE
COMMITTEE ON THE BUDGET
UNITED STATES SENATE
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OCTOBER 18-26, 1989

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BUDGET REFORM PROPOSALS

WEDNESDAY, OCTOBER 18, 1989

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS, AND THE
COMMITTEE ON THE BUDGET,
Washington, DC.

The Committees met, pursuant to notice, at 10:05 a.m., in room SH-216, Hart Senate Office Building. Hon. John Glenn, Chairman of the Committee on Governmental Affairs, and Hon. Jim Sasser, Chairman of the Committee on the Budget, presiding.

Present: Senators Glenn, Levin, Kohl, Lieberman, Roth, Stevens, Sasser, Johnston, Exon, Simon, Sanford, Wirth, Robb, Domenici, Grassley, Kasten, Nickles, and Gramm.

Chairman GLENN. The hearing will be in order.

This is a joint hearing of the Governmental Affairs Committee and the Budget Committee, and we are meeting jointly to consider ways to improve our Federal budget-making process. Senator Sasser will lead off with his statement.

OPENING STATEMENT OF CHAIRMAN SASSER

Chairman SASSER. Thank you very much, Chairman Glenn, it is a pleasure to be here this morning. Being both Chairman of the Budget Committee and a member of the Governmental Affairs Committee, I feel like I am twice blessed to be here at this joint meeting.

But today the Senate Budget Committee and the Senate Governmental Affairs Committee convene to hear the views of various Senators on reform of the Budget Act of 1974 and, of course, the Gramm-Rudman-Hollings deficit reduction mechanism. Under a standing order of the Senate our two Committees share jurisdiction over legislation that would change the budget process. And that is, perhaps, a responsibility that few other Committee chairmen will envy.

And I would say to my friend the Chairman of the Governmental Affairs Committee that he can consider himself very fortunate, because you, Chairman Glenn, only have the responsibility for overseeing the budget process and some of us share the burden of trying to implement it, and I must say, that is not always a happy task.

I make that remark only half in jest. As everyone here knows, we are meeting this morning under the shadow of a sequester that was triggered this past Monday. That sequester can be variously interpreted, depending on who is interpreting it, as a failure of the budget process, or as a successful exercise in Gramm-Rudman con-

straints, or a general abandonment of responsibility by all concerned.

We will probably not agree here on which is the case, but I suspect that we will indeed agree that changes in the budget process do indeed need to be made.

More than 100 bills to revise the Budget Act have been introduced in this Congress, and I would say in all candor that after a year of trying to make this budget process work, a year notable for aiming at very modest goals at the beginning of this year, goals that were soundly and roundly and perhaps justifiably criticized by a number of our colleagues, but having accepted these modest goals, operating in conjunction with the Administration, we now find that we are failing to achieve these goals. So I am in deep sympathy with proposals for a change in the budget process.

Now, I am particularly concerned this morning about Gramm-Rudman. I believe that we are at a flash point right now with regard to this rather blunt instrument we call Gramm-Rudman. Gramm-Rudman, in my judgment, is teetering on the verge of becoming more a part of the problem than a part of the solution. The original object of Gramm-Rudman was commendable, and I think that original object remains a desirable end result if we can achieve it.

We still need to constrain the deficit. We still need ways to impose budgetary discipline. We still need to end the spend-and-borrow policies that have tripled the national debt over the last 8 years, policies that have caused us, in my judgment, to build a false prosperity, partly on the basis of foreign capital.

But as a practical matter, I suspect that Gramm-Rudman has accomplished neither reduction nor restraint. Since Gramm-Rudman's enactment in 1985 the national debt has grown by an average of \$250 billion a year and will be well over \$3 trillion by 1991. Even in terms of annual deficit reduction, Gramm-Rudman has worked in only one year. Since 1987 the deficit has actually been increasing, up \$5 billion in 1988, an additional \$6 billion in 1989.

Moreover, of the \$60 billion we claim to have knocked off the Federal deficit since 1986, fully two-thirds, or \$40 billion, is due to a buildup in the Social Security Trust Fund. Now, the record simply, unhappily, does not support the notion that Gramm-Rudman has worked as a deficit reducer. Instead, the Gramm-Rudman game and the gaming of the system has actually replaced deficit reduction in many ways.

As I said the other day, we have ended up with two sets of books. This Government keeps two sets of books. First, we keep a set for the Gramm-Rudman game—and this is a useful fiction manipulated to give the illusion of progress—and second, we keep a set of books that are the real books. This is the real deficit. And we neglect getting around to doing something about the real deficit because of the Gramm-Rudman set of books we keep.

Now, it should be no surprise that an artificial construction is giving us artificial results, and that is exactly what Gramm-Rudman is, an artificial construction. But perhaps the ingenuity of some at the art of gaming this artificial construction is surprising. We have all decried the gimmickry, even as we have used them

ourselves, to reach the Gramm-Rudman targets, but the simple fact is that Gramm-Rudman encourages these practices.

Let me just outline and remind my colleagues of a few of the problems that have arisen in regard to Gramm-Rudman. The Gramm-Rudman proposal stimulates efforts to hide a long-term cost. The oldest examples are the trust funds that are incorporated into the budget in order to mask the deficit, particularly the Social Security Trust Fund that many of my colleagues such as Senator Sanford are particularly concerned about. We even have new devices now for gaming the system, and the newest use is the off-budget entity. It is difficult, for example, to estimate how much we added to the cost of the FSLIC bail-out with our prolonged debate over whether the cost would be on-budget or off-budget—a debate, frankly, that would never have occurred had it not been for the Gramm-Rudman game.

Gramm-Rudman has a 1-year focus. It is as if we are going to be here for 1 year and then we are going to dissolve the Republic and close down the Treasury and go on to something else. This 1-year focus encourages tricks like pay shifts, as we saw earlier this year, trying to shift some \$2.5 billion of Defense Department pay from fiscal year 1990 back to fiscal year 1989. It encourages quick-hit, one-time revenue raisers such as the capital gains proposal that we saw advanced in the House of Representatives this year, that raises revenues for 1 year, perhaps 2, but over a decade loses close to \$30 billion.

Lastly, Gramm-Rudman is governed by the Office of Management and Budget. Because the Office of Management and Budget has statutory power to establish the economic assumptions, the Administration can and does and has manipulated the savings to meet the targets. OMB says that the deficit for 1989 will be \$116 billion. The Congressional Budget Office says the deficit is going to be \$140 billion. And I dare say that we all know that the Congressional Budget Office is certainly closer to the mark.

In fact, since 1986 OMB has understated the deficit reduction task each year by an average of \$21 billion, a roughly 40 percent understatement of the deficits by OMB since 1986 when we began relying on Gramm-Rudman.

And finally, Gramm-Rudman relies on the threat of an unwieldy blade that drops at the very end of the budget process. It virtually begs for the kind of end-game stalemate that we have right now. In other words, the Gramm-Rudman constraints only come into play after the horse has left the barn. They therefore encourage procrastination and undoing the sequester, as we did in 1987 and as we may have to do this year.

Well, for all those reasons I will be reading each proposal offered here today with great interest, and I believe that everyone on the Budget Committee is open to suggestions for constructive change. In the final analysis, I think it is obvious that I do not believe, for one, that process is really the problem. In fact, Gramm-Rudman was itself a process solution to a fundamental problem of political will. The problem with this budget is not process. The problem of this budget is we simply do not have enough funds to operate this Government and meet the needs that all of our constituents wish

us to meet, or we simply don't have the political will to make the cuts and make the savings that need to be made.

And I don't think any changing or tinkering of the process is going to ultimately fill the void that is left by not enough revenue or not enough political will to make the cuts. This year's bipartisan budget agreement demonstrates that all too clearly. With a process wired well in advance, we still managed to short circuit, and although all parties have a different version of who is to blame, the simple fact is that we did not have the collective will to implement a very simple agreement that was made between the leadership of the Congress, of the Administration, this year with much ballyhoo and announced in the Rose Garden. Here we are in the second week of October in a sequester.

Now, ladies and gentlemen, and I say to my colleagues, no process is going to work if we don't have that collective will to make it work. The truth is that a bad process will make things worse, but process is not going to solve the problem. In my view we need to transform the inefficient mechanism we have now into a tool that helps us promote genuine deficit reduction and budgetary constraint. We need a deficit reduction instrument with a broader time horizon, in my judgment, one that is certainly less subject to manipulation than the Gramm-Rudman process, and one that builds its constraints more organically into the process, rather than imposing them at the end of the process like the sequester of Gramm-Rudman.

So I say to my colleagues, the way to chain this deficit beast is by giving ourselves the chance to make good policy decisions. In the final analysis, I think Gramm-Rudman has served some useful purposes and may well have restrained the growth of the deficit to some degree, but the time has come for something more effective.

Mr. Chairman, thank you and I look forward to your opening statement.

[Senator Sasser's prepared statement follows:]

PREPARED STATEMENT OF SENATOR SASSER

Today, the Senate Budget Committee and the Senate Governmental Affairs Committee convene to hear the views of various Senators on reform of the Budget Act of 1974 and, of course, the Gramm-Rudman-Hollings deficit reduction mechanism.

Under a standing order of the Senate, our two committees share jurisdiction over legislation that would change the budget process. That is perhaps a responsibility that few other committee chairmen will envy. But I would say to the chairman of the Governmental Affairs Committee that he can consider himself fortunate. He only has responsibility for overseeing the budget process. Some of us bear the burden of trying to implement it.

I make that remark only half in jest.

As everyone here knows, we are meeting this morning under the shadow of a sequester that was triggered this past Monday. That sequester can be variously interpreted as a failure of the budget process, a successful exercise in Gramm-Rudman constraints, or a general abandonment of responsibility by all concerned.

We will probably not agree here on which is the case. But I suspect that we will indeed agree that changes need to be made.

More than 100 bills to revise the Budget Act have been introduced this Congress. And I will say, in all candor, that after a year of trying to make the budget process work—a year notable for aiming at very modest goals and nonetheless failing to achieve them—I have deep sympathy with proposals for change.

I'm particularly concerned about Gramm-Rudman. I believe we're at a flash-point right now with regard to that rather blunt instrument. Gramm-Rudman, in my

judgment, is teetering on the verge of becoming more a part of the problem than part of the solution.

The original object of Gramm-Rudman was commendable, and it remains desirable. We still need to constrain the deficit. We still need ways to impose budgetary discipline. We still need to end the spend and borrow policies that have tripled the national debt over the last eight years, policies that have caused us to build a false prosperity on the basis of foreign capital.

Yet as a practical matter, Gramm-Rudman has accomplished neither reduction nor restraint. Since Gramm-Rudman's enactment in 1985, the national debt has grown by an average of \$250 billion a year and will be well over \$3 trillion by 1991.

Even in terms of annual deficit reduction, Gramm-Rudman has worked in only one year. Since 1987, the deficit has actually been increasing—up \$5 billion in 1988 and an additional \$6 billion in 1989.

Moreover, of the \$60 billion we claim to have knocked off the deficit since 1986, fully two thirds, or \$40 billion, is due to a buildup in the Social Security Trust Fund.

The record simply doesn't support the notion that Gramm-Rudman has worked as a deficit reducer. Instead, the Gramm-Rudman game has actually replaced deficit reduction. We've ended up with two sets of books. The first—the Gramm-Rudman game—is a useful fiction manipulated to give the illusion of progress. The second, the real deficit, is thereby neglected and getting worse.

It should be no surprise that an artificial construct is giving us artificial results. But perhaps the ingenuity of some of that art is surprising. We've all decried the gimmickry even as we've used it to reach the targets. But the simple fact is that Gramm-Rudman encourages those practices. Let me outline just a few of the problems that have arisen in that regard:

Gramm-Rudman stimulates efforts to hide long-term costs. The older examples are the trust funds that are incorporated in the budget in order to mask the deficit, particularly the Social Security trust fund. The newest ruse is the off-budget entity. It's difficult, for example, to estimate how much we added to the cost of the FLSIC bailout with our prolonged debate over whether the cost should be on or off budget—a debate that was wholly attributable to the Gramm-Rudman game.

Gramm-Rudman has a one-year focus. That encourages tricks like pay-shifts into subsequent or preceeding fiscal years and quick-hit revenue raisers that may produce only one-time savings and really do nothing to reduce the deficit over time.

Gramm-Rudman is governed by the Office of Management and Budget. Because OMB has statutory power to establish economic assumptions, the administration can easily manipulate the savings needed to meet the targets. OMB says the deficit for 1989 will be \$116 billion. CBO says it will be \$140 billion. CBO is almost certainly closer. In fact, since 1986, OMB has understated the deficit reduction task each year by an average of \$21 billion—or roughly 40%.

Finally, Gramm-Rudman relies on the threat on an unwieldy blade that drops at the very end of the budget process. It virtually begs for the kind of end-game stalemate we have right now. In other words, the Gramm-Rudman constraints only come into play after the horse is out of the barn. They therefore encourage procrastination and/or undoing the sequester as we did in 1987 and as we may do this year.

For all of those reasons, I will be reading each proposal offered here today with great interest. And I believe that everyone on the Budget Committee is open to suggestions for constructive change.

In the final analysis, however, I have to say that I do not believe process is really the problem. In fact, Gramm-Rudman was, itself, a process solution to a fundamental problem of political will.

This year's bipartisan budget agreement demonstrates that all too clearly. With the process wired well in advance, we still managed to short-circuit. And although all parties have a different version of who's to blame, the simple fact is that we didn't have the collective will to implement a simple agreement.

No process will work if we don't have that collective will. Unfortunately, a bad process can only make everything else far worse if we lack the discipline to act decisively.

That's the problem we have right now. In my view, we need to transform an inefficient mechanism into a tool that genuinely promotes deficit reduction and budgetary constraint. We need a deficit reduction instrument with a broader time horizon, one less subject to manipulation, and one that builds its constraints more organically into the process rather than imposing them artificially at the end.

The way to chain the deficit beast is by giving ourselves the chance to make good policy decisions.

Gramm-Rudman has served some useful purposes and may well have restrained the deficit to some degree. But the time has come for something more effective.

OPENING STATEMENT OF CHAIRMAN GLENN

Chairman GLENN. Thank you, Mr. Chairman. As I indicated in the beginning, this is a joint meeting. Both Committees share some jurisdiction in this area. The Governmental Affairs Committee was the Committee that authored the 1974 Budget Act, so obviously we maintain a long-standing interest in budget reform. But on the other hand, budget reform will not work unless the Budget Committee is part of that process also. There are so many proposals floating around out there now that that's the reason for this joint hearing; so we can make an overview of all of the different proposals that are before us today.

This morning's hearing, taking place at the beginning of a sequester, could not come at a more propitious time. To say that our current budget-making process is frustrating would be an understatement. We in the Congress spend a tremendous amount of time and effort on the budget, yet we routinely miss deadlines, and the Federal budget deficit remains huge.

Indeed, as Comptroller General Bowsher indicates in his written testimony—which I would ask unanimous consent be inserted in the record along with our other testimony today—that if the various trust funds are separated from the budget, the current deficit actually stands at about \$283 billion, almost \$20 billion more than the \$266 billion deficit level in 1985 when Gramm-Rudman-Hollings began.¹

What is going on then? Well, I am confident in asserting that our present budget-making process is not the main cause of the deficit, but it clearly is not doing all that is needed in helping us to fix the deficit either. After the fiscal foolery we have experienced this year, I believe we have no choice but to take a most serious look at how this Government conducts its budget business. We need the kind of leadership from the Executive Branch that will result in truth in budgeting first, not in accounting gimmickry or phony results based on unrealistic economic assumptions. Sometimes we pick the results we want and then we try and make economic assumptions to make it all match up.

I am not under the illusion that improving or overhauling the budget-making process is a substitute for mustering the political courage to make the tough budgetary policy choices that need to be made. The financial markets know that, our allies overseas know that, and the American public knows that. But changing the process can result in a reorientation in the way we measure the budget, in the way we go about making budgetary decisions, and in the way we assess the impact of the budget on the economy.

Clearly a reorientation that provides for more meaningful budget measurement, that provides for more informed budgetary decision-making, and that provides for a more effective assessment of the impact of fiscal policy on the economy will create a climate that is more favorable for achieving truly enduring deficit reduction.

The various proposals we will hear about today cover a wide range of potential remedies for budget-making reform. These include, among others, moving to a biennial budget, transforming the

¹ See p. 193.

Gramm-Rudman-Hollings deficit reduction process, giving the President line item veto or enhanced rescission authority, shifting to capital budgeting and restructuring the Congressional Committee system.

So we are honored to have as witnesses this morning our own Senate colleagues who have expended much effort in crafting these proposals, and I look forward very much to their testimony. Since this is a Joint Committee hearing this morning we had agreed ahead of time that the Chairmen would speak for their particular sides.

If anyone else has a statement and wishes to summarize it rather than enter it in the record, we could do that right now. But if no one has a statement or wishes to summarize, we will go ahead with testimony.

Our first two witnesses this morning are the Honorable Wendell Ford of Kentucky and Senator William Roth of Delaware.

Senator KASTEN. Mr. Chairman, could I simply ask unanimous consent to put a statement in the record?

Chairman GLENN. Certainly. Without objection it will be included.

[The statement of Senator Kasten follows:]

OPENING STATEMENT OF SENATOR ROBERT W. KASTEN JR.

Mr. Chairman, in recent weeks, there has been an increasing clamor in Congress and the media for repeal of the Gramm-Rudman-Hollings deficit-reduction process. The critics charge that it has caused a complete breakdown of the legislative process, and seriously hindered our efforts to cope with serious national problems.

And it's not hard to see how they drew this conclusion. Year in and year out, we see budget decisions based on accounting gimmicks, major policy choices buried in stop-gap spending measures, and far too much of our country's future determined in little-noticed provisions of massive omnibus bills.

Even one of the originators of the Gramm-Rudman-Hollings process, Senator Ernest Hollings (D-SC), has disowned his progeny. But before we rush to scrap this law, I think we ought to take a closer look at the very real benefits it has conferred on our process since it was passed back in 1985.

Item: As a percentage of GNP, the budget deficit has declined significantly since Gramm-Rudman was enacted—from 5.4 percent in 1985 to 3.2 percent in 1989.

Item: The annual growth of Federal spending has declined as well—from over 10 percent a year in the four years prior to Gramm-Rudman, to less than 4 percent in the four years since.

Item: Government spending, as a percentage of our national economy, has fallen from 23.9 percent of GNP in 1985 to 22.2 percent of GNP in 1989.

So despite its undeniable weaknesses, the Gramm-Rudman-Hollings law has worked as a deficit-reduction tool. It has imposed a measure of fiscal discipline on the budget process that otherwise would not have existed.

Example: The law contains a "deficit-neutral" provision which requires that all proposed increases in spending include offsetting reductions in spending on other programs or offsetting tax increases. This has made it much more difficult for Congress to pass amendments which would increase spending for specific programs, because competing interest groups can always be counted on to oppose the required offset (the spending cut or tax increase).

In the past, Congress would simply pass the cost of increased spending on to future taxpayers by increasing the deficit, which engendered comparatively little opposition from organized interest groups.

It should be emphasized that Gramm-Rudman is merely a process, a set of rules and guidelines; and that Congress retains the ultimate responsibility for making it work. The fact that the budget deficit has not declined as much as many of us had wanted is not a sign of the failure of Gramm-Rudman itself, but rather of the failure of Congressional will to set fiscal priorities.

The fault, therefore, is not in Gramm-Rudman—it is in Congress. We should not repeal or weaken Gramm-Rudman unless we're certain that the alternative would improve our prospects for deficit reduction.

I think we ought to strengthen the Gramm-Rudman mechanism and the whole budget process. Specifically, we ought to restore some measure of budgetary power to the Executive.

The 1974 Budget Act unnecessarily restricted the President's role in budgetary matters by eliminating his power to "impound" or withhold spending, thus contributing to the breakdown of the budgetary process and the subsequent rise in public spending. The line-item veto would give the President the opportunity to rescind unnecessary expenditures, and to enforce the Gramm-Rudman deficit ceilings. This would be a major step toward correcting the imbalance between the executive and legislative branches in budget policy.

A balanced budget amendment to the Constitution would also reflect the importance of fiscal responsibility to the American people—and put the heat on unruly legislators to live within their means.

The repeal of Gramm-Rudman, on the other hand, would be tantamount to an admission on the part of Congress that we are unwilling to live within our means. I can think of no worse signal we could possibly send to the American people and to the financial markets.

Mr. Chairman, I am convinced that the Gramm-Rudman process, along with a line-item veto and a balanced budget amendment, can and will result in a balanced Federal budget. To throw in the towel this soon would be a shocking abdication of fiscal responsibility on Congress's part—and that's why I'm sticking with Gramm-Rudman.

Chairman SASSER. Mr. Chairman, I want to make note of the fact that the distinguished Ranking Member of the Budget Committee, Senator Domenici, will be arriving shortly. He is down at the White House, and he may have a statement to make when he arrives.

Chairman GLENN. Fine. Senator Ford, will you lead off?

TESTIMONY OF HON. WENDELL H. FORD, U.S. SENATOR FROM THE STATE OF KENTUCKY¹

Senator FORD. I might say that Senator Domenici is also a co-sponsor of the legislation that Senator Roth and I have and I hope he gets here.

Thank you, Mr. Chairman, Senator Sasser. Let me just follow up on two remarks from Senator Sasser's statement. One, Senator Sasser talked about only one time, I think, we have met the deadlines of getting the 13 appropriation bills to the White House, and that was the year we had a 2-year agreement with President Reagan and the Administration, FY 1988 and then FY 1989, and so we set the FY 1988 level, agreed to that, and also agreed at the same time to the FY 1989 level. And then last year, as you know, we got all the bills just under the wire to the White House, the only time, I guess, in 11 years.

It was a 2-year budgetary agreement, I think that indicates it can work. And Senator Sasser said that we need a chance to make good policy decisions. Well, if you are always being churned as it relates to appropriations and funding and tax and smoke and mirrors and beating up on everything we have and saying we need a change, if you had a 2-year budget process you would have at least one year to look and to think and to approve what the budget would be the next 2 years.

¹ See p. 140 for Senator Ford's prepared statement.

So I am hoping—I don't have all the answers, I am not an expert. In fact, Mrs. Ford keeps my checkbook. But on the other hand, I do think that I had the experience as governor in a 2-year budget process. They say that many of the states are going to one year. Well, they have gone to the annual session. Some of them are 5 days, some of them are 15 days, most of them are short sessions. But those states who have a two-year budget get along much better than those that are changing every year. They get into the same frustration we do here at the national level.

I have a long statement, and I think both of you have put your statement in the record. And I think I will just file mine for the record and let you all ask us questions, give us time, give Senator Roth an opportunity to answer questions also. But this 2-year budget cycle is already at work. I have not heard a complaint from any Committee Chairman or Ranking Member since we agreed to have a 2-year budget for each of our Senate Committees. Next year you will not have to submit a budget, we already have it in place. If there are some corrections—I see my Ranking Member, Senator Stevens from Alaska, here—if you have some problems you can submit requests and we can look at it and make some changes, but as of now each Committee has a 2-year budget and apparently your chairmen are tickled to death with it.

Secondly, under defense, we have a 1.75 budget, 1 year plus 75 percent of the next year. The Defense Department wants it and it is working well. So basically what you are doing with a 2-year budget, the cycle you have now is crunched into one year, you spread it out to 2 years, and we have the same procedures and same ability to make necessary changes. It is simple and rather than get into all these nitty-gritty things issues every year, trying to change a dot over an "i" or cross-over a "t," I think a 2-year budget makes it simple.

Let me ask you this. If you go back to your community and they say, gee, we need this for over a two-year period, or we need this over a longer period, and they do not know whether they are going to get the money or not, we enact a continuing resolution for a few days and then it goes for a few more days, and now the continuing resolution we are operating under will expire the 25th, next week, and so we are back in the same procedure again of rolling it over, rolling it over, and the states are not sure what we are going to do for them. And the public hears sequestration and the headlines say, "Bush Slashes Budget." Then you read the first paragraph and it said that he was forced to cut the budget under the Gramm-Rudman-Hollings.

We don't change any Gramm-Rudman-Hollings in our bill. We keep it the same. We think that if it hadn't been for Gramm-Rudman-Hollings—at least this Senator does—we would not be forced into doing what we are doing. We talk about the trust funds. We have 163 trust funds. They brought in 53 percent of the income last year to the general fund. And all these things are on budget.

We need to have an opportunity to look at it. You go back to your State as governor—we have at least two up here that have been governor—we know that if you know what is coming from the Federal Government for 2 years you can plan much better, you have a long-term look. A 2-year budget, in my opinion, is much

better for your state and your constituency than the way we operate now.

So, Mr. Chairman, I am hopeful that with approximately I think maybe 12 or 14 members of the two Committees that are cosponsors of Senator Roth's bill and mine, that there is some interest and some enthusiasm. We have 39 sponsors of the bill and 39 Senators are saying they want this or something similar to it. We are not—or at least I am not—set in concrete, but I do think we have to get into the 2-year process and give us some time to think so we can make those good policy decisions that everybody wants to make. But if you come in here in January and you are not through with the year before and you are trying to get the budget ready for the next year, things are always going to be in chaos, and we need time for oversight.

Maybe HUD would not have happened. Maybe the Indian Trust Fund would not have happened, \$2 billion short. All of these things would have had an opportunity for oversight that we do not have time to do now. So rather than getting into a long, full-fledged statement, Mr. Chairman, I will submit that for the record and that will end my comments.

Chairman GLENN. Without objection it will be included in the record, as for all of our witnesses today if they have lengthier statements they wish to include.

Senator Roth?

TESTIMONY OF HON. WILLIAM V. ROTH, JR., U.S. SENATOR FROM THE STATE OF DELAWARE ¹

Senator ROTH. Thank you, Mr. Chairman. I too will avoid reading my prepared statement.

Let me start out by saying that I think a biennial budget is an idea whose time has come. I want to pay special tribute to my colleague Wendell Ford who has fought so long and so hard for this proposition. It has been a pleasure for me to join him in this effort. We have been working together now for several years. I am pleased to say that we have 38 cosponsors, the President has come out in favor of a biennial budget. So as I say, I think the time has really come to begin to do something about this Rube Goldberg contraption we have developed as our budget process.

Mr. Chairman, nobody knows or understands our budget process or where we are. And it makes no difference whether you are talking about the people here in the beltway or you are talking about the people at home who have to work with it. There is no excuse, there is no rationalization for us not moving forward. We have talked long enough. We have studied too long. The time has come for action.

Just let me start out and repeat several valid points that my colleague Senator Ford has brought out. The only time the process has really worked is in that two-year process of 1987-88 where we had a 2-year budget under the leadership guidance. I think it shows that biennial budgeting does work. As I say it is an idea whose time has come.

¹ See p. 145 for Senator Roth's prepared statement.

The problem with our process now is that it is so complex, so repetitive, that nobody is able to follow or understand it. Perhaps the Chairman of the Budget Committee and a few there are knowledgeable, but frankly, there are very few of us in the Congress who really understand this complicated process.

One of the problems is that it takes so much time, it involves so many repetitive times on the same issue that we haven't the opportunity to do the other things that are so important to good government.

Wendell Ford mentioned HUD. I think that is a good illustration. Mr. Chairman, we had some hearings in Governmental Affairs about oversight, and the fact is, let's face it, oversight is not adequate in this Congress. And I am pointing the finger at all of us. Perhaps HUD could have been avoided if we had had the time and opportunity to investigate as we should. When you are talking about a trillion dollar budget, oversight is an extraordinarily difficult, time consuming thing.

But now with the annual budget process we have, we don't really have any time to do the other things because most of the Members that are members of authorizing Committees are also members of the Budget Committee or the Appropriations Committee or the Finance Committee. So that the demands on our time are too much. A 2-year budget will cut almost in half the work that needs to be done, and I think that is a valuable goal that ought to be accomplished.

Secondly, let me just talk very briefly about the people back home. I think the Chairman of the Budget Committee made a very valid point, that it is hard to set priorities, we don't have as much money as we would like to spend in many areas, but one step that would help better utilize the money that we do have available is a 2-year budget. If our educators back home, our teachers, our superintendents, our administrators knew how much money was coming from Washington for a 2-year period, then we would have an opportunity to better utilize those funds.

I am not sitting here, Mr. Chairman, and trying to say that that is going to solve the problems of the budget, the deficit, but I am saying it would mean better utilization of the money, and certainly in these times of money shortage that is an important goal.

Let me just conclude, Mr. Chairman, with I think a very important statement that was made by the Johns Hopkins Foreign Policy Institute and the Center for Strategic and International Studies. It is entitled "Making Defense Reform Work," but it also applies to domestic as well. Let me just read a couple of paragraphs and then I will conclude.

In this report they say:

The substantive arguments for 2-year budgets are compelling. The longer-term focus could help to force hard choices. It is too easy to defer difficult choices when the field of view is limited to a single year. One-year budgets contribute to the excessive focus in both the Pentagon and the Congress on the near term. With every program up for review every year, it is little wonder that few people in either branch take long term planning seriously.

A biennial budget also would impart greater stability to the defense program. There is simply too much turmoil in Government programs when every item in the budget can be adjusted every year. And the burden of annual budgets on both branches of Government is too great for domestic programs as well as defense. An

annual budget process leaves too little time in either branch for serious policy planning or evaluation. Most of the time is taken up preparing, reviewing, and defending each year's budget. Pentagon officials must defend the pending budget in Congress by completing the next year's submission beginning on the third year's request.

Well, it goes on, talks about why it is important, how it can be handled on a 2-year basis. I think that, as I say, Mr. Chairman—Mr. Chairmen, both of you—I would hope that the time has come where we will quit talking and start doing something to simplify the procedure.

Thank you.

Chairman SASSER. Thank you very much, Senator Ford and Senator Roth. I want to commend both of you for the measure that you have introduced and have pursued so diligently over a number of years, and I think there are a great number of positive features to your bill that I think we need to duly consider as we look towards revising the Budget Act.

Chairman Glenn and I have discussed this and in view of the number of Senators here, we would like very much to suggest that Senators stick to a 5-minute rule if we could. And since I have treated myself to a lengthy opening statement, I am going to waive my 5 minutes.

Chairman Glenn?

Chairman GLENN. We will try and move along as rapidly as possible. Let me just be very brief here.

One of the possible arguments against biennial budgeting is that we would not be able to forecast for 2 years in a row. It would also be difficult to set a budget for 2 years because of unforeseen things like disasters or droughts.

Would you address that very briefly?

Senator FORD. Dr. Alice Rivlin, former director of the Congressional Budget Office—who supports biennial budgeting, by the way—addressed this issue in her testimony last year before the National Economic Commission. She basically said that although economic forecasts would be less reliable for 2 years, attempts to fine-tune fiscal policy rarely work and any loss would be minimal. Moreover, major unforeseen developments could still be dealt with as they are dealt with now. So if you have a Hugo or the earthquake and those things are there, there would be no change in the procedure in which the Congress would operate.

So it would give you more time to make those good policy decisions if you had a 2-year budget. But under those circumstances Dr. Rivlin sees that the up side is a plus and she supports it.

Chairman GLENN. I have no further questions. I would just like to comment that the Governmental Affairs Committee voted out 2-year budgeting last year. It came a little late in the session, and obviously we did not get it included in action on the floor last year. It has gone a long time this year, but we are on record as having voted out being in favor of 2-year budgeting.

Chairman SASSER. Thank you, Mr. Chairman. We will go now to the order in which our of colleagues arrived, alternating from minority to majority side, and that puts Senator Stevens up next.

Senator Stevens?

Senator STEVENS. Mr. Chairman, I really don't have any questions. There is a joint session starting here soon and I hope some members will remember that, but I do think that our colleagues have presented a good plan. But in my judgment, it will not work unless we have a restructuring of Committees at the same time, and I hope that they will listen to the presentation that is going to be made by the distinguished lady from Kansas with regard to that. One will not work without the other, in my judgment. Thank you.

Chairman SASSER. Senator Exon?

Senator EXON. I just congratulate my colleagues for offering this. I have no further questions.

Chairman SASSER. Senator Grassley?

OPENING STATEMENT OF SENATOR GRASSLEY

Senator GRASSLEY. Mr. Chairman, I believe this hearing is useful in that process reform can help improve budgeting at the margin. For instance, a line item veto, if exercised judiciously by a President, would have a small, although vital, impact on the deficit.

Having said that, Mr. Chairman, I would suggest that we keep our eyes on the doughnut, and not the hole. The problems we are experiencing in getting the deficit down to our legal targets have nothing to do with a faulty process. It has to do with an absence of political will, pure and simple.

Blaming the process for our failures is like blaming your car when you have an auto accident. Not many people would buy that excuse, so why use it to blame the deficits?

I have been hearing, lately, that Gramm-Rudman is a failure because it encourages the use of smoke and mirrors. Let me say, Mr. Chairman, that cooking numbers is the world's second oldest profession. Some of the present members of these committees were not in Congress five and six years ago when I put together my plans versus reality charts for the Federal budget. Those were the charts that showed our budget committee saying that our handywork would eventually cause a surplus when, in reality, the deficits were climbing. That was well before we had Gramm-Rudman, and yet how do you think we were able to make rising deficits look like surpluses? Those years were the training ground for the most creative sleight-of-hand Congress has ever seen. The smoke and mirrors we're seeing today is nothing compared to the advanced art level practiced in the early '80's. For one thing, they had to cover up much larger numbers.

Smoke and mirrors, Mr. Chairman, exist because of necessity. If necessity is the mother of invention, what is it that precipitates the necessity? The answer is political will. If political will determines a need for not cutting the deficit but making it look like we did, then, by golly, there will be smoke and mirrors.

Another major problem in the budget process is we have allowed the leadership to call the shots.

That's like calling in a Commission. When is the last time a Commission accomplished anything of permanent substance?

I have been very supportive in the past, Mr. President, of process reforms for the budget. But in supporting such efforts, I do not

intend to mislead the public into thinking that the process is the real barrier to deficit reduction. Nor would I blame the Executive branch, as some appear to want to do. There's no question in my mind, Mr. Chairman, that we have seen the enemy and they are us. What we need more than process reform is a good act of contrition, and to then roll up our sleeves and get to work on cutting the deficit.

As I said earlier, I agree that we need reforms to increase the effectiveness of the process. But much more important than these reforms is the need to reform our own approach to budgeting.

Thank you, Mr. Chairman.

Senator FORD. Mr. Chairman, may I respond to Senator Grassley just a moment. I understand political will. This is not a substitute, Senator, for political will, but it is a management tool for exercising political will. And most people that look at a 2-year budget, they indicate that this would strengthen the Gramm-Rudman-Hollings proposal that we want to knock around a little bit. But if it wasn't for Gramm-Rudman-Hollings, I am not sure what we would have today, maybe a \$300 billion deficit.

Senator GRAMM. God bless you.

Senator FORD. Well, don't go that far, I look to others for that. Take a compliment when you can get it without injecting the Lord in it. [Laughter.]

Chairman SASSER. Mr. Chairman, we have been joined by Senator Domenici, the distinguished Ranking Member of the Budget Committee, and I would defer to Senator Domenici now, with your permission, if he has any opening statement or comments he would wish to make.

Senator DOMENICI. Thank you very much, Mr. Chairman. With your permission, I'll just wait a while and perhaps I will make a few observations when these witnesses are finished. I thank you for giving me the opportunity.

Chairman SASSER. All right. In order of arrival, I am advised that Senator Simon is next.

Senator Simon?

Senator SIMON. I have to say in deference, I think Senator Robb and Senator Sanford were here ahead of me.

Chairman SASSER. All right, Senator Sanford. Somebody is not keeping our books correctly.

Senator Sanford?

Senator SANFORD. Take your opportunities when you get them. I am a cosponsor of this bill, so I have precluded myself from cross-examining you.

Senator FORD. You may anyhow.

Senator SANFORD. All right. Assuming that we passed this bill this fall, when would it become effective, fiscal year 1992?

Senator FORD. In 1991.

Senator SANFORD. So you would in the election year begin the 2-year process?

Senator FORD. That is right. You would not be setting a budget during an election year. That would be the year you would give thought.

Senator SANFORD. Yes, but we will be setting 1991 in an election year.

Senator FORD. On October 1, 1991 would be the first biennium.

Senator SANFORD. But this coming year, 1990, is an election year—

Senator FORD. Right.

Senator SANFORD [continuing]. And we are setting fiscal year 1991 during that year.

Senator ROTH. Well, let me say, Mr. Chairman, I think we are flexible on that. The time is not so important as the principle.

Senator SANFORD. Well, I am all in favor of the principle. I just want to make the point that it has to coincide, it seems to me, with the two-year Congressional period. A Congressman comes in at the first of a term, makes up the budget for 2 years, am I not correct?

Senator ROTH. That is correct.

Senator SANFORD. So you have got a leeway of a year, if we enacted it now, before it goes into effect?

Senator FORD. That is correct. The bill becomes effective in 1990, but the first biennium does not begin until FY 1991.

Senator SANFORD. So I think it is a very good idea. I commend it. I think my own experience in the governor's office simply was that you might have had a few little emergencies to take care of in the second year, but you had ways of taking care of them and you could get on with your business every other year anyhow.

I thank you very much.

Senator ROTH. Could I just comment on what you said by asking you a question. As a former governor, do you feel the 2-year process would help you in your financial deliberations at the state level?

Senator SANFORD. Well, it did. And I think now that they have gone to a 1-year they have created for themselves all kinds of trouble.

Senator ROTH. Thank you.

Chairman SASSER. Senator Gramm?

OPENING STATEMENT OF SENATOR GRAMM

Senator GRAMM. Mr. Chairman, let me first say that I endorse doing a 2-year budget, and I strongly support it for all the reasons that have been outlined plus one other. I have found in my 11 years in Congress that Congress is more willing to do something where it is not implemented until the future than it is willing to do something when it is immediately implemented. And I believe that we are more likely to take tough action when it is not going to occur for a year than we are going to be willing to take the tough action on an annual basis. So my guess is that biennial budgeting would mean that we would write better budgets in the second year, and if we can then find the will to enforce them in the second year, I think it would be a dramatic improvement in our situation.

I want to just say a little bit about phony savings and political will. The first reconciliation bill I ever saw with phony savings was in 1980, it was the first one I ever saw. And the economy was going to hell in a handbasket and interest rates were 21½ percent. We had a rewrite of the budget. We had a reconciliation bill that claimed \$7 or \$8 billion of savings, most of which was spending it this year rather than next year. There were \$2 billion real savings,

1 billion came from paying a once a year COLA to retired Federal employees rather than a twice a year COLA.

I voted for the package. It passed overwhelmingly as part of a reconciliation bill, but when a conservative Republican asked us to vote on the COLA change straight up, I think the total fell from about 270 in the House to about 70 that stayed with the savings. I stayed with the savings. I was in the midst of an election at the time and I did a little poll in my district, and everybody that was a Federal employee or a Federal retiree knew how I voted and was going to vote against me because of it, and not one other person in my poll even knew the issue had been voted on.

Now, that's your problem with political will. If we can find a way to gin that up, we don't need any of these reforms, but I personally believe that if you can structure the system in such a way as to assist those that are trying to do something, if you can put the burden of proof on those that are trying to spend more money, trying to raise the deficit, that you can never build a four-sided fort that solves the problem, but you can get a good stone wall to your back in a gun fight. And my view is this is a good reform that you have proposed and I think it would help and I am for it and I think we ought to implement it. I think it is going to be very tough the first year, because doing a 2-year budget, especially for the Administration, which, after all, has to write a real honest-to-God budget, we just adopt a bunch of totals and then we let the appropriators figure out how to do it.

I think it will be very hard the first year. I think we will probably run over our deadlines worse than usual, but I think once we are into it and the Administration has 2 years to write a 2-year budget, I think we will do a much better job and I think it is worth the effort. So I strongly endorse it, I am for it.

Senator FORD. Mr. Chairman, may I make a comment. Let me just say, this is the time to do it, because the President is for it. He has endorsed it, he made that endorsement in his State of the Union address. We are sitting here with the President now ready to make the judgment and send us the package to the Hill. We could implement it. I think there will be some bugs, but under the circumstances with a cooperative President, it probably would run smoother than if we had to force it by law some way. We have a willing participant here and I would like to, as the Senator from Texas said, move on with it.

Senator ROTH. If I could just make one further comment, it also seems to me that the 2-year budget helps prevent smoke and mirrors. It is more difficult—it is not impossible—but it is more difficult to shift payment dates under a 2-year plan than say it is one year. So it is a step in the right direction as far as that is concerned.

Senator FORD. Is there any way that you could use some other terminology besides "smoke." I just lost a little bit on airlines this past week, and if you could just make it something and mirrors. [Laughter.]

Senator GRAMM. It is not fair to use smoke or mirrors, it seems to me. I suspect—if I might just say, and I'll be brief—that you will still have the effort to do payment shifts because next year may not come, the member that is going to be affected may die in the

interim, the world may come to an end, the Government may collapse. Doing it next year is always going to be easier, I don't see how you change that. But I think at least you are getting more accountability, and I think if we are going to judge our success on perfection, we are never going to have any success.

Chairman SASSER. Senator Robb?

Senator ROBB. Thank you, Mr. Chairman. I will be very brief.

As I think you know, there is not much about the budget process that I would not like to change. I am a cosponsor of this particular legislation. During the time that I was governor we operated under a 2-year budget in Virginia. We still do and it is an excellent financial management tool. It served us very well and I see no reason it should not serve the Congress and the people of United States.

Is there any organized resistance to this? I hate to ask the proponents to adopt the other side or set up a straw man. If so, who is it coming from, and why?

Senator FORD. Well, there is not much opposition to the idea of a biennial budget. There has been some disagreement on how to structure the cycle. That is where we get into the problem. Most want the 2 years, but how do we structure it. One, we are trying to get out of having it during an election year, that it is already in place and behind us. That would be helpful.

Senator Stevens, my good friend and Ranking Member on the Rules Committee with me, wants the Committees all restructured before we go to the budgeting process.

That is the mine field we are going to have to walk through here, and I think we are able to do that. There are Members on both of these Committees who are cosponsors of this bill and so the disagreement, in my opinion, is not uniform. And support for the concept, I think, is widespread and if we just continue to move on with it, don't let a voice or 2 stop us, we ought to be able to move forward and try to work out whatever is in disagreement.

Senator ROTH. But, Mr. Chairman, if we wait until we complete all the reforms that many of us think are necessary, nothing will ever get done. I think we have here one proposal that does garner broad support. It can be done without waiting for some of the other necessary reforms, so I think it would be a tragedy if we said, well, because it doesn't perfect the whole process we should not act.

Senator ROBB. Thank you.

Senator DOMENICI. Would the Senator yield on his question?

Senator ROBB. Yes, indeed.

Senator DOMENICI. I believe the 2-year budget has broad support in the Senate as a concept. I think the United States House doesn't like it very much. I haven't heard much clamor from that—

Senator FORD. Pete, there was a survey—excuse me for interrupting you—there was a survey last year by the Center for Responsive Politics, and 85 percent of both the House and the Senate in their poll, favored a 2-year appropriations. There may be some leadership over there that would be fussing about it.

Senator DOMENICI. If the Chairman would permit and it doesn't disrupt—I did not make an opening statement. Were you finished? I surely did not want to interrupt. I had a few observations about this, but I would wait, Senator, and thank you for yielding.

Senator ROBB. I appreciate it. I will yield. I would like to get on with it, I agree. Let me just say that I agree wholeheartedly that there are a lot of proposals to reform the process, many of which can go forward independently, and I am prepared to move on all of them right now.

Senator DOMENICI. Mr. Chairman, might I make an observation at this point? I think it is obvious that out in the United States our various sovereign States have normally led the way in spite of us thinking we are so great up here. And there was a rather major move in the direction of 2-year budgets by the States. For the most part, they have held to that. A couple have reverted back to one year, but I think a close look would indicate that this has been caused by problems with estimating, their constitutions, or the like.

I personally think we ought to move with a 2-year budget, but I don't think anybody should assume that it is going to clear up the myriad of problems that we have been confronted with. Let me just ask a few questions. Would we still have an annual appropriation process? If so, why? Would we still have reconciliation as loose as it is? If so, why? Would we reconcile committees every 2 years? What will get rid of the enormous delays that exist between the House and Senate in the budget process? We will go through the budget cycle one time less, so maybe that is the answer, we will do it every 2 years.

It seems to me some thought ought to be given to there being a Joint Budget Committee of the House and Senate. Then we would go through this exercise one time with joint hearings and get it over with more quickly.

What happens to the economic assumption? Most of our errors are estimating errors. Yes, we use gimmicks, but if you look at the major disparities between the targets and the achievements, they are largely caused by economic and technical factors. It is because it is very difficult in the United States to make economic assessments and projections. If interest rates are off 5/10ths of a percent, I say to my friend from Virginia, the 2-year budget here might be off 20, 30 billions of dollars. How do we address that?

Now, I think there are answers to all of those and I think my friends who are the cosponsors of this particular limited approach would be amenable to answering some of those questions so that we are not left in limbo on many of these issues.

What do we do with the Gramm-Rudman targets? Do we put them on the same economic reduction scale that they are on and do them on a 2-year basis? I assume so. Do we stop mid-point and say where are we, or not?

So there are many questions and issues. Nonetheless, it seems to me that you have offered something very constructive. I end up on the side that any and all of these processes will work if we want to make them work. It is very difficult to make them work when you don't want to give the Budget Committee the kind of authority that people assume we have. You probably joined this Committee, I say to my friend from Virginia, with the idea that it was a Committee that really set priorities. It doesn't. It sets very large numbers, and others set all the priorities. And I am not seeking more authority, but we have to understand that.

Reconciliation doesn't work. Some are saying do away with it, but if somebody suggests that it be a real tool where the United States Congress votes specifically in a reconciliation bill on what is to be done, I guarantee you no one will vote for that because they want to preserve committees' jurisdictional authority to decide for themselves. When you tell a Committee, reduce spending by so much, it seems to me that Committee finds every opportunity to do everything under the sun in addition to reducing the amount of expenditures by the amount you asked. Nobody had in mind that the end result of the reconciliation process would be huge reconciliation bills, containing numerous provisions extraneous to deficit reduction.

So there are many, many issues that remain unanswered and that we ought to answer, and I commend the two Chairmen for calling this meeting, because we are not here to only talk about a 2-year budget. We are also here to talk about how we make the fiscal policy of this country responsive to the will of these members.

I am sure there are many who were absolutely shocked to find that what they voted for in a budget doesn't turn out at all like they assumed when the year ends. Sooner or later we have to address that. I, for one, say if it isn't the Budget Committee, it ought to be somebody. It ought not be that difficult, but it is.

You all have to understand that when the Budget Act was drawn—and go back and read its history—there was no intention to take away one bit of jurisdiction from any other Committee, but rather to truncate a system that had 2 kinds of legislative processes—appropriations and authorizations—with a third, called the budget process. Nobody wanted to change the way they were doing business, and yet they expect the Budget Committee in a budget resolution to change the way they do business.

Well, we shouldn't expect a miracle. We got what is provided for in this law. Now every Congressmen under our current tight fiscal policy, this Senator included, all use the ingenuity that this rather open policy permits to do what we want and what other Committees want. And you are not going to find it easy to write anything that is going to change this budget process.

Thank you very much, Mr. Chairman.

Chairman SASSER. Thank you. Senator Kohl?

Senator SIMON. I will reclaim my time here. I did get in here ahead of Senator Kohl.

Senator SASSER. Okay. Senator Simon?

Senator SIMON. Thank you, Mr. Chairman. I was, frankly initially not in favor of the idea, but I think it can provide some help. I think it is just one small piece of the whole puzzle of how we move in the right direction. I think it would provide some pressure on spending. I think there are some very practical questions, and Senator Domenici mentioned one. One is, I think you will have to have that first year fiscal year 1992. I think that is the reality of the process as you move ahead.

The second thing that—

Senator FORD. The Senator is correct, FY 1992 is the first year of the biennium.

Senator SIMON. Okay.

The second thing that I think we ought to be taking a look at is whether we have an October 1 date. I don't know exactly—I don't know any magic formula, but we do have—and I don't see anyone here, Senator Gramm was, and served on the House Budget Committee—we have one added problem that ties in with the date, and that is Presidents come in—and I have gone through this process now with three new Presidents—they come in the first year, they know very little about the budget process. Now, this was particularly true for President Carter and President Reagan, less so for President Bush, but somewhat.

Chairman SASSER. Some of them go out not knowing much about the budget process. [Laughter.]

Senator SIMON. And it is complicated also by—and this is the House rules—but in the House you have a turnover of almost 50 percent every year on the Budget Committee. And that makes it very, very difficult, because all of a sudden you are thrust in the House into making these kind of massive decisions. But I think the idea is basically sound. I think it would be restraint. I am much less confident than my colleagues from Kentucky and Delaware that it will really result in long-term planning. I doubt that we are going to get much more long-term planning out of it. I do think it could permit maybe a little, but primarily it would be a restraint on spending and I think it would be wise.

Chairman SASSER. Senator Nickles?

OPENING STATEMENT OF SENATOR NICKLES

Senator NICKLES. Mr. Chairman, thank you very much. I want to thank Senator Ford and Senator Roth for their presentation. I apologize that I didn't get to hear all of it, but I have been supportive of their efforts, or at least their general thrust, and I also know that Senator Kassebaum and Senator Heinz and others are going to testify before the Committee, so I won't be long. But I will say that I think, Mr. Chairman, that it is incumbent upon us to make significant budget change and budget reform, real reform in how we do our business. Maybe a 2-year cycle, or some real changes in reconciliation need to be made. I think that was proven by the debacle that we had on the floor.

I think we also have to look at some of the rules that allow us to make big increases in out-year losses under the name of reconciliation rules. We had several provisions in our reconciliation which would be very expensive over the lifetime of the bill. We might gain some short term revenue and have some long term losses. I find that to be inconsistent with the thrust of reconciliation and I would hope that we would look at those rules and maybe really narrow the overall scope of reconciliation to the extent that we did in the Senate. We should confine reconciliation to a very narrow point to achieve its objectives and then look at the long term and see what we can do.

Then I think we even have to go further, and that would involve such things as a line item veto, or even maybe a little broader than a line item veto such as a bill veto. We are now developing several legislative packages where we put large bills together and give them to the President. We may see the same thing with the debt

extension when it is presented to the President. It may have as many as 20, it may have 100, and if we are looking at reconciliation, several hundred extraneous provisions. I think the President should have the opportunity not so line by line but to sign or veto each one of those individual measures. Maybe we could make a rule to automatically enroll those separately and individually before sending them to the President so that he would have that opportunity.

But I applaud my colleagues' attempts to make budget reform. I hope that we will be aggressive and that this Committee, in working with the Governmental Affairs Committee and the Rules Committee, will work strenuously to make things happen. I have been in the Senate for nine years, and though the budget process has probably been my biggest disappointment, serving on the Committee hasn't made it any better. Senator Simon mentioned the turnover rate in the House. This Committee has not been effective, in my opinion, in really curtailing the growth of Federal spending and significantly reducing the amount of deficits.

I would like to see that changed and I think there are many of us on both the Democrat and the Republican side that would like to do that. This Committee should be maybe the focal point of getting it done. I would like to see a real thrust towards a significant, comprehensive, bipartisan solution to helping solve the deficit dilemma that still confronts our country.

I would be happy to do that. Senator Domenici has developed a very comprehensive package in the past, including a lot of significant reforms and encompassing many of the reforms that Senator Ford and Senator Roth have discussed today. I would hope that we could work out a package to that end and pass it in this Congress.

Chairman SASSER. Thank you, Senator Nickles.

Senator Kohl has been waiting patiently.

Senator KOHL. Thank you, Mr. Chairman. I recognize how difficult the process is. I haven't been here a long time, but I am one of the presenters this morning, I have a program of my own. But I would just make the observation that we thought we had the answer with Gramm-Rudman and we don't have the answer. I think that a 2-year budget is an improvement over the way we are doing it now, but nothing will ever substitute, I believe, for the responsibilities we have here, and we have to accept those responsibilities. I think we have to concede and admit that the reason we don't have balanced budgets, particularly during the 1980s, is that the Congress and the President just have not been willing to exercise the kind of discipline and cooperation to achieve that and until we do that I wonder if there is any system that is really going to get us where we want.

And Senators Roth and Ford, you might comment on that. How will 2 years make any difference if we don't really want to sit down and understand that we have a responsibility.

Senator FORD. At least some of us may. Maybe not everyone, but some will want to sit down and try to make an honest effort to try to work out a budgetary process to help bring our deficit down. If you have time to think, if you have time, to go back to what the Chairman of the Budget Committee said, you have time to study and make good policy decisions. Under the present situation we are

not ahead of the fact, we are after the fact. The new fiscal year started October 1, this is October 18, and the continuing resolution is up October 25th.

If you had it all done in 1 year and you could give some thought, you could look at the decisions you have to make, the States would be making better decisions because they would know over a 2-year period, and the community, when the money is coming. And you would have at least that opportunity for oversight in the non-budget year. And those are the things we are not doing now.

We are absolutely pushed into a corner every time a budget comes up because last year's budget—or the coming year's budget—isn't finished and in January, a couple of months away, the President of the United States is going to give you the budget for the next year. So we come right down and if he would give us a 2-year budget, which he says he wants to do, and we could have it in place for 1992, then I think we will have made some small contribution to the problem. It is a tool—not the answer—but a tool to give us the ability to try to think through some of the problems that are ours.

Now, do we want to make it complicated? No, I don't think we do. We are basically just stretching from 1 year to 2 years, so we don't change all the process. Gramm-Rudman-Hollings is still there, the ability to take care of Hugo or whatever it might be is still there. CBO will make the report in the second year to give us an alert if anything is going to happen, or some projection. All of those things are in there, and I hope the time element that it would give you and I to study and think our problems through would be as important as the 2-year budget.

Senator ROTH. Just let me make a very short comment. I agree with everything that Senator Ford has said.

The crying need in many ways is to simplify the process so that people understand it, both those at home who are dependent upon it as they plan their own budget, and for those of us here in Washington. But to me one of the important things is that as we have watched the Defense Department move towards a 2-year budget the testimony has been that it has substantially improved the process. It has enabled, for example, the Pentagon itself to give greater consideration to longer term problems.

It is no answer in and of itself, but we do think it is a significant factor in moving towards simplification and better planning.

Chairman GLENN. I guess we are done with everyone here right now.

Senator Robb has left, but let me just take 1 minute here. He asked why we just don't go ahead and vote this out. There are some different views of how a 2-year budget should work.

Senator FORD. Absolutely.

Chairman GLENN. For lack of a better definition, we could say there are three; one would be a stretch, one would be split session, one would be summit. The stretch would be a proposal that just envisions Congress and the President spreading their current budget negotiations over a 2-year period.

Senator FORD. I don't think you want to negotiate over a 2-year period. You have a negotiation, once that is over you wouldn't have to sit down and negotiate again for another 2 years.

Chairman GLENN. But that is one that you might call stretch.

Then the one that you are proposing here, S. 21, would be more like what we would call a split-session proposal. This would provide for the President and Congress to spend 1 year setting the budget and then 1 year concentrating on matters not related directly to fiscal policy, oversight and supervising things.

The third proposal, a summit proposal, would be more like what Senator Domenici has proposed with S. 391. That would call for a biennial budget agreement and annual appropriations, alternating them like that.

So there are some variations here that we have to deal with even within the 2-year budgeting proposals.

Senator FORD. Well, if all the Committees were on a 2-year budget and you only gave them money every year it wouldn't make much difference.

And I might say to my friend from Wisconsin that it may be complicated, the process may be complicated now, but you would only have to do that every other year. You wouldn't have to be complicated every year, and be behind.

Chairman GLENN. We are going to move along. Thank you gentlemen. I appreciate it. There may be additional questions other members will have that they will want to submit for the record.

Our next witness is the Honorable James Exon of Nebraska.

Senator Exon?

Senator SIMON. Mr. Chairman, before Wendell Ford leaves back there, while Senator Exon is coming in, he said if it weren't for Gramm-Rudman-Hollings we would have a \$300 billion deficit. I voted for Gramm-Rudman-Hollings. The Comptroller General is going to testify later this morning that this past fiscal year, when you don't count the trust funds, we have had a \$283 billion deficit, very, very close to that \$300 billion.

Chairman GLENN. I see you two have automatically formed a panel this morning. That's fine.

Senator EXON. Mr. Chairman, if I might indulge the Chairman of the Committee, I had indicated to Senator Kassebaum that she could go first. She wishes to make a brief statement, if that is in order.

Chairman GLENN. Fine. I know she had some other responsibilities on the Foreign Relations Committee this morning that she would like to get on to.

TESTIMONY OF HON. NANCY LANDON KASSEBAUM, U.S. SENATOR FROM THE STATE OF KANSAS ¹

Senator KASSEBAUM. Thank you, Mr. Chairman. I hope to go to the joint session and I very much appreciate Senator Exon letting me go. I will be very brief, but would like to speak on behalf of legislation that is a restructuring of Committees that Senators Inouye, Daschle, Dodd, Lugar, McCain and myself introduced in the last Congress. We have reintroduced it in this Congress. And I have been even more convinced in the past year that committee

¹ See p. 147 for Senator Kassebaum's prepared statement.

reform is absolutely fundamental, to making our work more efficient and effective here.

I agree with much of what you, Senator Sasser and Senator Glenn, have said in your opening statements. I don't think that just changing the budget process provides the answer. And, of course, I very much appreciate Senator Stevens' comment that restructuring of the Committees is important.

I think Senator Domenici pointed out that sometimes what sounds like a good idea doesn't necessarily work the way that we hope it might. I am not convinced that simply a restructuring of the Committees will give us sound fiscal policy, will help us reduce the deficit. But I am convinced it would make our work here more efficient.

Budget process revisions, would I think be fruitful. I support a two-year budget cycle. I am a cosponsor of the legislation that Senator Ford and Senator Roth have introduced.

I think enhanced rescission authority is important and I support that. I support line item veto authority. But I am convinced that the impact of procedural modifications will be limited unless we also clarify the chain of command for decision-making. Over the past years, I think we have become much more individualistic in our efforts here. This trend stretches procedural guidelines. Of course, the Senate has had a long tradition of protecting ourselves and each other's rights and particularly those of the minority, by procedure. That protection is absolutely important, and as a member of minority, I am particularly appreciative of that protection.

But the complexities of our current procedures invite their use to advance, I think, individual agendas at the expense of our larger responsibilities.

Just briefly, Mr. Chairman, the first thing that this legislation would do is make the Budget Committee, rather as Senator Domenici and Senator Johnston have defined in their procedural changes—a priority Committee composed of the Chairmen of the other Committees.

The bill would also combine the authorizing and appropriating process into one Committee. For instance, Armed Services, which I think is one to use as an example, would both authorize and appropriate.

Thirdly, it would restructure the Committee jurisdictions. And without going into an explanation of that, all of which I would be happy to share, at another time I just want to express my appreciation for the opportunity to talk about this piece of legislation. I have testified to the Rules Committee on it. I think, that the restructuring would help us a great deal. I would welcome cosponsors. And I would like to thank you very much, Senator Exon, for allowing me to plead my case.

Chairman GLENN. What is your time situation? Can you stay for questions or do you have to go?

Senator KASSEBAUM. Well, if I am going to make the joint session at all I better go.

Chairman GLENN. All right. Fine.

Senator KASSEBAUM. Thank you very much.

Chairman GLENN. We may want to submit additional questions. I know that your S. Res. 131, which would abolish the Committee structure, and combine authorizing and appropriating Committees, was referred to the Rules Committee.

Senator KASSEBAUM. That is right.

Chairman GLENN. And you wanted to testify this morning, and that is fine. We might want to ask some questions for the record on it, even though it was referred to the Rules Committee.

Senator KASSEBAUM. Well, I hope so.

Chairman GLENN. We could submit questions for the record and you could reply to them.

Senator KASSEBAUM. Yes, I very much would appreciate that and regret that I have made a commitment on the joint session. Thank you, Mr. Chairman.

Chairman GLENN. Good. Senator Exon?

TESTIMONY OF HON. J. JAMES EXON, U.S. SENATOR FROM THE STATE OF NEBRASKA ¹

Senator EXON. Thank you Senator Kassebaum, and thank you. I salute the two Chairmen for calling this meeting to take a serious look at the situation that faces us and what we are going to do about it.

I applaud and support generally the concept offered by the two Senators that sat at this table before Senator Kassebaum and myself. I listened to the discussion of those issues. I have not studied the Kassebaum proposal in any great detail, but it seems to me that that is worthy of some consideration.

But let me bundle up all of those proposals simply to say, at best they can't hurt anything and at worst they are a Band Aid to the overall problem. And therein lies the problem that we face and what we are going to do about it.

Mr. Chairman, I have, as the Committee knows, introduced some bills that I think would be tough, they are going to be tough to get through. But if we are serious about the problem, we are going to have to do something about it.

Let me try and put this in some kind of a context. And I might ask, Mr. Chairman, that my complete remarks be inserted in the record and I will try and summarize them.

Chairman GLENN. Without objection it will be included in its entirety.

Senator EXON. Also, I would like to enter in the record at this time a story from this morning's Journal of Commerce, that is, October 18, 1989, headlined "Japan Needs Its Own Super 301." I would like to ask that that be entered into the record at this time.²

Chairman GLENN. Without objection it will be included.

Senator EXON. We have to have things like this to maybe shock us into the reality of what is going on. What is so wrong with the Federal budget being so far out of balance? Well, what is so wrong with it is obvious to so many of us, and the Japanese are taking a keen look at this.

¹ See p. 150 for Senator Exon's prepared statement.

² See p. 235.

I am going to quote briefly from this story. This is by Mototada Kikkawa, who is a professor of international economics at a major university in Japan.

And the author says, Japan should have a tough retaliatory measure if the Bush Administration invokes sanctions against its products. A Japanese Super 301 that would cut funds to the U.S. Treasury is just the ticket.

Going ahead with the quote, "We"—this is the Japanese—"should not add to the acrimony by overreacting, but we must respond to what Ms. Hills has suggested."

"Japan needs an effective bargaining chip."

A further quote, "The key provision would adjust capital flow from Japan into the United States if sanctions are proposed against Japan. Imposition of trade sanctions, for example, might automatically trigger a 20 percent slash in Japan's purchase of Treasury notes."

How long are we going to go on sacrificing the financial health and stability of the greatest Nation on earth without doing something about it because we simply don't have the courage? I suggest it is about time we muster that.

I think the Committee knows that I have introduced three bills with several cosponsors. These bills include S.J. Res. 22, a proposed constitutional amendment to require the President submit to the Congress and the Congress enact a balanced budget; S. 354, a bill to effectively grant the President line item veto authority; and S. 532, the Debt Ceiling Reform Act.

The decline in America's economic position and power can be traced directly to our fiscal foolishness, in part to the supply side experiment that we have just been through wherein the United States of America decided that somehow we could tax cut our way into fiscal responsibility and prosperity. It all started, as we all know, with the concept—goofy in my opinion—the concept of supply side economics and what I have generally referred to as a laughable curve.

My only concern is that all of the proposals that we have heard so far do not go far enough. I would simply say that all trust funds should be taken out of deficit calculations. At the appropriate time I intend to offer an amendment to extend the honesty and the proposals to make trust funds not a part of the budget a key part of any proposal that we look at.

Members of the Senate Budget Committee will recall an amendment which I offered during the consideration of the 1990 budget which revealed the true size of the deficit, excluding trust funds and even using modest OMB economic assumptions, to show that the figure would be \$239 billion and not \$99 billion, produced by the traditional accounting measures.

Our key problem, it seems to me, with the current system is that the balanced Federal budget has moved so far out of sight that many of us don't seem to understand it at all. I have introduced several measures in this area, which S.J. Res. 22 is only one. I have also introduced S. 354, with Senators Boren and Shelby as cosponsors, that would give the President line item veto authority. Granted this proposal gives many of my colleagues heartburn, if not stomach convulsions, but it is something that we should look at.

The central force of my remarks today, however, are in regard to S. 532, the Debt Ceiling Reform Act. This legislation was referred to the Budget and Governmental Affairs Committees for consideration, and it was cosponsored by Senators Heflin, Shelby, and Cochran.

This bill will fundamentally reform our method of tracking progress towards deficit reduction. Whether you support the Gramm-Rudman process or not, this legislation would assure honest, accuracy and true enforcement of Congressional budgets. Under the Debt Ceiling Reform Act, the statutory debt ceiling would be brought into the budget process. Debt ceiling legislation consistent with the Congressional budget would be included each year in the budget reconciliation bill. If the Federal Government should borrow money at a rate faster than contemplated by the Congressional budget, regardless of the bottom line deficit target, any additional debt ceiling authority would require a 3/5ths vote.

To avoid gridlock, the Congress and the President would have to be forthcoming from the first day of the budget cycle, and every day thereafter. The Executive Branch would be very much involved. Neither the Congress would be held hostage to the Executive or vice versa. Such a procedure would institute continuous enforcement of spending, revenue and deficit targets contained in each year's budget. If the Congress is initially honest and sticks to its annual budget, or corrects it for changing economic conditions, debt ceiling legislation could be handled in a routine manner under the limited debate and amendment procedures. If the Federal budget gets off track, again a 3/5ths vote would be needed to increase the debt ceiling beyond the level in the reconciliation bill.

Other measures to deal with the budget shortfall, such as reductions in spending and/or alterations in revenues, would require a simple majority and the President's signature. Under my proposal, no longer would increasing the national debt be the easiest way for Congress and the President to satisfy what has been their spending appetites. In essence, the reform would establish in the Federal Government—maybe a letter of credit would be a good way to put it—against which the Government would have to operate in the coming year. When the credit runs out, only a super majority could extend that line of credit.

Mr. Chairman, the Debt Ceiling Act most of all would guarantee honesty. The proposal would put a premium on accuracy, reality and prudence. Accounting gimmicks, deficit shifts and optimistic economic assumptions would be of no avail because they would all eventually show up on the debt ceiling.

In addition, by introducing the debt ceiling legislation in the reconciliation process, debt ceiling bills would no longer be a legislative lightening rod to attract all sorts of pork barrel gimmicks and amendments.

In concluding, just let me say that the Debt Ceiling Act links the debt ceiling with deficit reduction, and until we do that I think nothing else is going to have a chance of being successful. It recognizes that the American people are ready for the truth. It is tough but workable and I believe that if we could get behind something like this, the suggestions herein are not in concrete and I would ask both of the Committees represented here to take a close look at

it and if we have to make some changes, I would be glad to consider those.

Mr. Chairman, as the Committee reviews these reforms I ask that the proposals that I have made, especially the last proposal which is under the joint jurisdiction of these two Committees, be carefully looked at, and I welcome the support and comments and I will be glad to answer any questions that might be imposed to me.

Chairman GLENN. Thank you, Senator Exon. As I understand it, S. 532 would basically require that the Congressional budget resolution would include directives with respect to the statutory debt limit.

Now, how would it work specifically? Our budget resolution would have what kind of directives in it now, and what would they specify?

Senator EXON. It would specify—it comes back down to the bottom line idea, Senator, that we would set the debt limit at a figure that—and when we took that debt limit figure we would be putting a straightjacket on all of the rest of the processes that follow. And very basically, I would say that I think one of the problems in the past is we have tried to focus too much of our attention, as the Gramm-Rudman did, on the annual budget deficit and just left the national debt kind of dangling out there.

I think the best way to answer your question would be simply to say that if this measure became law, or something similar to it, we would fold in and have the total borrowing authority, or letter of credit as I referred to it in my remarks, would be part of the process at each step of the way down the line rather than putting it at the end of the consideration process when we have to go through all of these gimmicks and smoke and mirrors that we have all been involved in to try and come in with an unrealistic and not totally honest proposal.

I guess what I am saying is that if we want to get serious, then we are going to have to have something like that and we would have to have more than just a simple majority to enforce it.

Senator DOMENICI. First, Senator Exon, thank you for your efforts. I just have one question.

When the debt limit extension comes to the floor of the Senate, we are not going to be passing a debt limit to take care of the past expenditures, we are going to pass a debt limit to take care of future expenditures.

Now, you wouldn't be changing that, would you?

Senator EXON. I would be open to some suggestions on how that might be done. I would envision probably putting us in more of a straightjacket than maybe some of the members of either one of these Committees with jurisdiction would be interested in. I just simply come back, Senator Domenici, to the answer that I just gave to the Chairman of the Committee, and that is that I would hope we could fashion something that would be more restrictive on what we can and cannot do. And the bottom line of that, it seems to me, is to put a trigger mechanism, or rather than facing a sequester, which is an interesting concept, but you know full well as the Ranking Member of the Budget Committee and have served on that as long as I have been here, that every time we go into this kind of a process, even if we have a sequester, generally speaking

we pass something and make it retroactive so that the triggering mechanism in the sequester is not as awesome as I think it was intended to be in the first instance.

Senator DOMENICI. Well, I don't want to belabor the point, but just want to give you the hypothetical, let's just assume the debt limit was \$3 trillion and we were going to have to extend it, and let's even assume that we were timely, that we were doing it at the beginning of the fiscal year, as you are probably suggesting. We would have to be saying that the debt limit is being extended by the amount that we assume we are going to add to the deficit, at least until we eliminate the budget deficit somehow.

Senator EXON. I agree.

Senator DOMENICI. Well that, in and of itself, requires that we pass now our projection of what the spending is going to be for the next fiscal cycle. And my concern is, wouldn't we be back where we started? Let's assume that we are going to add 70 billion to the deficit, because we plan to reduce the deficit down from 100 billion to 70 billion. So we would have to add 70 billion to that instrument called the debt limit.

Now, during the year, we will be appropriating, the economy will run its course, and, inflation and interest rates will be determined by the marketplace. We then come to a point in time and we look at the \$70 billion. Right now we correct shortfalls by sequester. If the deficit turns out not to be 70 billion but instead is 85 billion, we say, let's get rid of 15 billion of it through a sequester.

I don't know any other way we are going to be able to do this even on a debt limit, because the debt limit is based on projections of future expenditures, which has built into it economics, a cycle of appropriations, and all of the things that have to occur. So we will be right back at a similar kind of exercise in estimating and controlling throughout the year, and then we get up to the end of the fiscal year and we don't have enough borrowing authority. We can close the Government down, and that is what we frequently face now. It has been pretty effective. But what are you suggesting we do differently?

Senator EXON. Well, I think that it is very clear from the statement that I made that an out in this whole proposition would be the requirement of a super majority, and I put that in the bill because I suspect that there are going to be times of when, for example, we would drop into a severe recession or depression, might get involved in an international conflict that would require us to do some additional things, but we are going to have to have some means where a super majority could get together and say this is one of those times when we have to make an adjustment.

Senator DOMENICI. My only concern is that as you work your way through the year, how are you going to know? The first appropriation bill comes up and they say, "we are doing our job", and we pass it. The second one comes up, and we pass it. The third one comes up, we surely can't say, well the debt limit out here in 11 months is going to tie your hands, because they will be on the Floor saying they have lived within their budget allocation. But you come within one month of the new fiscal year, you have done the reestimating, and then what are we going to do differently? We

are not going to extend credit, but how are we going to get the deficit down?

Senator EXON. I would suggest if that were the case, we may have to develop some kind of a mechanism where even after we have passed an authorization bill and an appropriation bill, it would be put in on some kind of a status on the Senate calendar for review and possibly across-the-board cuts if when we finish the process we had exceeded the total debt limit that we had envisioned.

Senator DOMENICI. Well it seems to me, as I think with you, that the only way I can see to make it work is to extend the debt limit piecemeal with each piece of legislation, then you know how much you have. Otherwise, you are still estimating. There isn't any way to do it besides estimating, because you are working on the future, you are not working on the present.

Senator EXON. Well, except that if we did approve all of those bills as I have outlined with a hold on it before they went into operation for the next fiscal year, we might have to have an across-the-board approach or cut, which is basically, as I understand it, the triggering mechanism that was envisioned in Gramm-Rudman.

Senator DOMENICI. Thank you very much.

Chairman GLENN. Thank you. Senator Kohl?

Senator KOHL. No questions.

Chairman GLENN. All right. Thank you, Senator Exon.

Senator EXON. Thank you, Mr. Chairman.

Chairman GLENN. Our next witness this morning is the Honorable John Heinz.

Senator Heinz, welcome this morning.

TESTIMONY OF HON. JOHN HEINZ, U.S. SENATOR FROM THE STATE OF PENNSYLVANIA ¹

Senator HEINZ. Mr. Chairman, I appear before you both as a witness and as a member of the Governmental Affairs Committee. I thank you for this opportunity to address what many of us, an increasing number in Congress believe is perhaps the most critical budget issue that we have been faced with in many, many years, namely the separation of the Old Age Survivors and Disability Insurance (OASDI) program from the Federal budget.

As background, I would just refer to two things. First, earlier this year during consideration of the budget resolution the Senate adopted my Sense of the Senate resolution that this was an issue that we would tackle this year. Indeed, there has been a lot of movement on it on both sides of the aisle. I believe a group of Democrats got together to say earlier last week that this was a good thing to do, and a day previous to that I introduced a specific proposal, S. 1752.

For those who are not familiar with S. 1752, it is fairly straightforward. It separates the OASDI program, the so-called Social Security program, from the Federal budget, placing it off-budget. It does the same for the accounting of interest, the interest the Treasury must pay to the trust funds, revises upward the Gramm-Rudman-

¹ See p. 132 for Senator Heinz' prepared statement.

Hollings targets by the amount of the annual surplus that is now taken into account as if it were deficit reduction, stretches the Gramm-Rudman-Hollings procedure out an additional 4 years, from 1993 to 1997, so we can reduce the remaining deficit, and maintains a 60 vote Gramm-Rudman-Hollings point of order against anybody who would try and use the Social Security reserves for any other purpose than that provided for by law.

Just so everybody is clear, current law explicitly does provide for annual cost-of-living increases and they would be certainly guaranteed and protected under this legislation. My point in coming here today is to share with my colleagues in a sense some analysis that I have had the opportunity to do. Before we get directly into the charts, I want to quote a favorite author of many of ours, namely William Shakespeare, who told us "Oh, what a tangled web we weave when first we practice to deceive."

Chairman GLENN. It seems to me my mother used to quote that to me once in a while.

Senator HEINZ. I am not going to say that the original intent of the budget process or of Gramm-Rudman-Hollings, or of the way that we account for the Federal deficit was intentionally aimed at deceiving people. But the result is that today, regardless of Phil Gramm's, Warren Rudman's, Pete Domenici's or anybody's intentions, is deficit deception, perhaps unintended but certainly very real.

As the chart to my right points out, most people think the Federal budget deficits are the black columns on this chart, which are the CBO baseline deficits, which currently are running at around \$159 billion or \$146 billion and are gradually declining. Of course, we hope to do better than that as a result of the budget process and reconciliation. Actions taken through reconciliation, such as they may be, of course are not reflected in the so-called baseline. It is the baseline we hope to change.

The other set of columns is the actual or what I would call structural deficit, if you do not count the annual surplus in the Old Age Survivors and Disability Insurance fund. What we see then when we look at the actual deficit in the general fund of the Treasury is that the deficit in 1990 is not \$146 billion, it is \$214 billion, and it is not going down, it is going up, and by 1994, or 5 years from now, reaches a quarter of a trillion dollars.

That is, as they say, Mr. Chairman, real money. That is just the annual deficit we would have. Of course, what that means is that we will come close to increasing the total obligations, the total borrowing by the Treasury Department over the next 5 years by something just a shade under one and a quarter trillion dollars if we just keep doing pretty much what we are doing, which is going through our annual budgeting process, going through the Gramm-Rudman-Hollings, the deficit reduction reconciliation procedure, and counting the Old Age Survivors and Disability Insurance fund surplus, which is the excess of the payroll tax revenues over expenditures, as if that is deficit reduction. Obviously, that suggests to me that we have a problem.

Now, there are some people, I suppose, who would say, Senator, that is not a problem, in spite of what you have just said about the deficit, that money is money that it is available, we should treat it

the way we have treated it since 1968 when Lyndon Johnson put the Social Security Trust Fund reserves into the Federal budget to help improve the picture during the war in Vietnam.

To them I would direct them to this chart at the right, which is the simplest way of demonstrating, I think, why we are trying to build up a genuine surplus in the Old Age Survivors and Disability Insurance program. The red line on this chart is calibrated on the right-hand side, and it is the growth, or the size, of the age 65 and over population in the United States. Right now it is a tad over 30 million people. But as you can see, as we go out to the year 2000, 2010, 2020, and then in the year 2030, we expect to have in this country about 65 million senior citizens, twice the number we have today.

As you can see, we have planned—and this was the intention of the 1983 Social Security reform amendments—to build up an adequate reserve for that increase in senior citizens, and that is the blue line, the trust fund balances, which are, of course, at this point on this chart well below the red line, the number of people, and catch up to it in the next century and then stay pretty close to it.

The simple point of this chart is that those reserves are needed for a purpose, that is, to pay the benefits of present but mostly future retirees, and if we do not accumulate those reserves but in effect build a huge mountain of Federal debt that hypothecates them, they are simply not going to be available for the people we have promised them to.

In this regard I would just comment that we already have a national debt of roughly \$3 trillion. That debt is currently composed of about \$600 million or \$700 million that is owed to the trust funds and about \$2.2 trillion, \$2.3 trillion that is owed to the general public.

If we do not correct this problem, we are going to find that by the end of this decade we are going to more than double the publicly held debt from where it is today, and in addition, we are going to treble or quadruple the debt that the Treasury Department owes to the Social Security Trust Fund. That is just the beginning of a mountain of debt because, although I do not have the charts here today, the picture as you get into the next century in 2010, 2020, becomes astronomical in terms of the mountain of debt.

In effect, what you get is one huge pile of debt that is debt owed to the Social Security Trust Fund, and another pile of debt on top of it which will peak at about \$25 trillion in the year 2030 in current dollars, from the combination of debt owed to Social Security and to the public. We worry about having \$3 trillion in debt. We ought to be somewhat more than shocked, alarmed and frightened by the prospect of a \$25 trillion mountain of debt.

Mr. President—Chairman—excuse me, I know you ran.

Chairman GLENN. It has a nice ring to it anyway. [Laughter.]

Senator HEINZ. Mr. Chairman, I wanted to show this third chart because it illustrates one other relatively less obvious but nonetheless deeply troubling aspect of this whole problem, and that is the way that we report interest that we pay on our debts. There are two sets of bars on this chart, black and red. Black is net interest. Net interest is the interest that the Federal Government pays to

anybody from whom we have borrowed, less the interest that we pay to the Social Security or other trust funds. We treat it, when we pay it to other trust funds, not as interest paid out but, strangely enough, we treat it as a revenue. We treat it as a receipt. Talk about deceit, to treat that as a receipt.

If in fact you treat all interest equally and fairly, what you get is a number called "gross interest," and that is what the red bars illustrate.

The amount of net interest that we are reflecting today in the 1990 budget is about \$180 billion. That, by the way, is a huge number and it represents 23 percent of all the non-Social Security revenues that we will collect in fiscal 1990. It means that nearly \$1 out of every \$4 that we take in in non-Social Security revenues is already spoken for. It is money that cannot be used to buy and build a single tank, cannot educate a single child, cannot put 2 cents of it towards a cure for cancer or AIDS. It is money we have to pay to the people we are in debt to.

That is bad enough, but in fact the amount of interest that we really have to pay out isn't \$180 billion, it's much more than that. It is \$260 billion. So if we think we have a problem, the moral is, it is far worse than we ever dreamed of. Worse—you could say, well, the good news about net interest is that it does not appear to grow terribly fast, just about as fast as anything else. The bad news is that gross interest obviously grows dramatically. It looks, if you project it into another 5 or 10 years forward, it goes up like a ski jump.

So it is important to recognize the impact that this continued borrowing, both from the public and from Social Security, is going to have on the ability of the Federal Government to meet its obligations from general revenues. We call them general revenues because they help us fulfill the obligations of general Government. Unless the philosophy that we want to adopt is we want to eliminate general Government, then inaction is in fact consent to that very proposition, because interest will eat up an ever increasing portion of our general revenues to the point where there will be no general Government left, no help for education, no help for health care, no help to get people out of poverty and into the mainstream, no defense budget, no operations and maintenance, not much procurement. We will have a serious problem.

Mr. Chairman, I recognize that this presentation has probably gone a little longer than it should have and I apologize to you, but I wanted to make the point that there needs to be a consensus—I hope it is a bipartisan consensus—on taking action and taking action now. If there were four principles I would like to suggest for any such action, I would briefly state them like this.

First, that whatever approach we adopt—and I am sure in a body of 100 people we can find maybe member 150 different approaches—that we all agree that the time to take the Social Security trust funds off-budget is not later but now, this year. Some people may want to say, well let us wait until 1993 or 1994 when Gramm-Rudman-Hollings gets us down to zero.

There are two problems with waiting. One is that the longer we wait the harder it becomes to tell the truth, and I do not know how any of us would feel if we waited until 1993 and there was kind of

a miracle that took place and we actually got down to zero under Gramm-Rudman-Hollings and we said, by the way, although today is September 30 and we are down to zero as of tomorrow, on October 1st we say, by the way, the real number is not zero, it is \$113 billion.

That strikes me as asking the Congress to trot itself out on the stage, put on a performance, and then disrobe at the end and stand there half naked, or totally naked. I do not think that is a realistic proposition and I do not think it is a good proposition.

The second principle is that whatever mechanism we use, I think we should be fair to the Congress and adjust our Gramm-Rudman-Hollings targets, whatever they are going to be, upward by exactly the amount of the surplus that we are talking off-budget. I do not think it is realistic and I do not think it is good policy to ask the Congress to accept any additional pain than we already have under Gramm-Rudman-Hollings. The additional pain that we do accept is in the out years, in fiscal 1993 through 1997 where we are going to have to extend that discipline those 4 years longer.

The third principle is to make sure that the stretch-out—and we will need a stretch-out—is reasonable. In my bill it happens to be 4 years. If someone wants to make it 3 years or 5 years, I am amenable to that. The main thing is to agree on something that is reasonable.

Finally—and I made this point at the end—I would suggest that to really——

Senator DOMENICI. Senator Heinz, could I ask a question on that point?

Senator HEINZ. If I may just make my fourth point and then you can ask me a million questions, Senator Domenici.

Senator DOMENICI. I don't have a million, but——

Senator HEINZ. We need to maintain the 60 vote Gramm-Rudman-Hollings point of order against anybody who would use the Social Security Trust Fund reserves for other than their intended purpose as stipulated by law. We do not want those reserves to be used to pay for some other title of the Social Security Act, for example. That is not what the present law intends. They are paid for Old Age Survivors and Disability Insurance benefits, including cost-of-living increases, and they should not be diverted and used for any other purpose.

Mr. Chairman, I thank you for the opportunity to testify here. I would be pleased to answer your, Senator Domenici's, or anybody else's questions, and I thank the Committee for this opportunity.

Chairman GLENN. Thank you, Senator Heinz.

Just an announcement here. We are going to have to have another hearing on this. We are not going to be able to get to everybody today. I was just talking to Senator Sanford and he has indicated that he would be willing to put his testimony off to another day.

I know Senator Coats is here and has been waiting very patiently all morning. I think what we will probably do is ask Senator Sanford, Senator Conrad and Senator Kohl to be witnesses at a separate hearing, if that is satisfactory, because I know we are not going to be able to get everybody in today. We had a lot of partici-

pation by Committee members early on and that took quite a bit of time, as you who have been here all morning can recall.

So perhaps we could proceed in that manner. If staff would notify the staff of those people, we will let them know what our next hearing date is going to be. We will try and have that within the next week.

Senator HEINZ, following up your question on proposing to move Social Security off-budget, it is a big amount of money, it is a big step to do that.

Are you proposing to do that in one step, two steps, gradually, or how do we do it? Is it one fell swoop and off?

Senator HEINZ. In S. 1752, the Congress would adopt the principle of moving the entire trust fund off-budget, both the revenues, the expenditures, and the interest payments, and then adjust the Gramm-Rudman-Hollings targets upwards to take into account the exact effect on the budget of doing that.

Chairman GLENN. How about other trust funds, do you deal with those at all, or would this be just the OASDI?

Senator HEINZ. This deals exclusively with OASDI, it does not deal with the other trust funds.

Chairman GLENN. I know there will be a move if we go this route, and I probably would support it. But there will be a move to take the other trust funds off, too. That money has supposedly been collected, for instance, for airlines. The consumer pays an 8 percent airline tax and yet we cannot modernize the airlines because it is going to show up as more deficit.

Senator HEINZ. Mr. Chairman, I may or may not support those kinds of efforts, but they are very different from this, because we are building—the only reason that we are building a surplus in the Social Security Trust Fund reserves is that we decided in 1983 to make a major departure in the way we handled Social Security. We realized that we had a tremendous group of baby boomers who were going to be retiring in the next century and unless we wanted payroll taxes to go through the roof—and the roof is probably around 30 or 40 percent of payroll as opposed to 14 or 15 percent currently—that we had to do something about it, and do it now.

The basis on which we accumulated surpluses in the Highway Trust Fund, the Airway Trust Fund, or any of those other trust funds, was we just wanted a cushion. We did not do them because we knew we had to spend them. With Social Security we know we have to spend our surplus, and it is very, very different. It is promised to those retirees.

Chairman GLENN. Senator Domenici?

Senator DOMENICI. Senator Heinz, I want to compliment you on your work in this area. I am not at all sure that we know the effect on the economy as to how quickly we get to an overall balanced budget. I understand you have just indicated you get there in 4 years after the alleged Gramm-Rudman zero deficit target. As I understand it, that is not the hallmark of your bill, it could be 3, it could be 5, as I understand it. Is that a fair statement?

Senator HEINZ. That is a fair statement.

Senator DOMENICI. Let me ask you, I have talked to a number of investors that look at the entire American marketplace of investments, and I keep getting answers from them that the most secure

and safest place for anyone to invest money is in United States of America Treasury bills.

Do you have an opinion on that, Senator Heinz? Do you think that is the best place, the safest place to invest money?

Senator HEINZ. I do not know if it is the safest place. There are some people who say it is safer in a Swiss bank. But the market—

Senator DOMENICI. But that is clearly a different situation.

Senator HEINZ. Why?

Senator DOMENICI. You could not invest the Social Security Trust Fund in a Swiss bank I don't think. They would in turn lend it to somebody else. They couldn't possibly use it. So I am just talking from the secured position. If you talk to those on Wall Street, those who invest other people's monies, whenever things get fragile out there you see them run back in droves to T-bills?

Senator HEINZ. I would say that all U.S. Government obligations are considered equally secure. The return on them varies, the expected return, and you will sometimes, unless you have an inverted yield curve—and sometimes you do—you will find that interest rates tend to be a bit higher in the long term than the short term. We have gone through a period of having fairly persistent inverted yield curves lately. So in a sense, if the yield curves mean anything, longer term Government securities are presumably a lot riskier than short term ones, so obviously, it means the Fed is in the market.

But there are other securities that are Government securities, which are actually much larger in volume than U.S. Government securities, which have just as much full faith and credit behind them, and they are the general obligation securities of states and municipalities, which are AAA rated.

Senator DOMENICI. I guess the reason I ask that question is because it is one thing to say that we need truth in budgeting—and I understand you are less ravenous about the alleged deceit in terms of the Gramm-Rudman targets than others.

Senator HEINZ. I do not say it was intentional.

Senator DOMENICI. That is what I mean, you at least don't accuse those of who have done this of trying to defraud anyone. I mean, we couldn't be any more clear. Anyone that wants to see the deficit, it is there. We have even reported it two ways so everyone will know, we have reported it on Gramm-Rudman accounting and off Gramm-Rudman accounting. So it is not a matter of protecting the senior citizens of this country, because I assume the best protection for senior citizens is to invest their surplus in Treasury bills. Perhaps I am making a giant leap in assuming that you would agree with that.

Senator HEINZ. I think that is a good first place, but it is not the only place where they would be totally secure.

Senator DOMENICI. Well, I guarantee you I have had a difficult time thinking of where else I would recommend that they be invested. I was delighted that somebody talked about it on the floor just before Black Monday 2 years ago. They were talking about why don't we invest the social security surplus in Wall Street. I put a little statement in the record, thank God we didn't or we just

would have lost 35 percent of the Social Security fund unless we had some more enlightened investors than those across America.

But I guess the point I am trying to make is that everybody is talking about protecting the Social Security beneficiaries. No one wants to do that more than I. But it appears to me that if there is a surplus in their fund, it is going to be a long day before we invest it anywhere other than Treasury bills. So they are invested in Treasury bills now. So we get some of this trust in budgeting, they are going to be invested where they are now.

So what are we talking about? We are talking about getting the deficit down within a reasonable period of time. I assumed that's what Gramm-Rudman was about. Some people are kind of saying it wasn't. If you read Gramm-Rudman and the Budget Act, Social Security is off-budget now. All we did—all Senator Gramm did in his formula, was to say, for purposes of reducing the deficit, let's reduce it \$36 billion a year. That is what we have been trying to do.

I don't know how that is deceitful, how that is bad economics, how that endangers the trust fund if we did that. I mean, I did not hear any economists out there—let me say to the members of this Committee and to you, Mr. Chairman—I didn't hear anyone saying we ought to reduce the deficit by \$80 billion a year. In fact, \$36 billion was assumed by some to be a rather close call. So we have been reducing it at \$36 billion a year and investing the surplus in Treasury bills.

I submit that we are going to change this because everyone is going to be on board protecting the Social Security beneficiaries. I don't know how they are any more or any less protected when we are finished with this exercise. It is a question of how quickly do we want to reduce the deficit. I don't think it has a lot to do with the surplus.

So I would say there is a new problem, and I would ask that the Chairman permit me to insert in the record the Washington Post editorial of today.¹

Chairman GLENN. Without objection, it is so ordered.

Senator DOMENICI. It is called "Split Level Government." And I think those who are so certain that we ought to jump into this right now in the interest of protecting seniors and their pensions ought to look at the pitfalls of a split level Government, also.

Senator Heinz, I compliment you because to some extent in your 60 vote super majority you have covered part of the problem. I am not sure you have covered it all, but at least you are looking at the fact that it is sitting out there as a huge surplus with people now saying, now, what do we use it for, while we are struggling over here to reduce the deficit in what one might call the non-unified budget.

I get back to the point that we ought to be telling older Americans, you are as certain as you can be when your surplus is invested in Treasury bills of the United States.

When do we draw down on this fund, 2020, is that the estimate in your Committee?

¹ See p. 234

Senator HEINZ. The fund peaks, Senator Domenici, about the year 2030.

Senator DOMENICI. All right. So it seems to me that as we get close to 2030, maybe 2000, maybe 2005, maybe 2010, we ought to be very concerned at that point that we don't have one huge coverage problem. But to talk of this as if it is a next year problem, or the year after problem, doesn't seem to me to be very relevant, and I want to remind everyone, the greatest protection in the world for the Social Security Trust Fund is a growing American economy.

I guarantee you all we need are a couple of major recessions of a high, high order like the last one we had, get a couple of those in the next 12, 15, 20 years and it will take out of that trust fund not by a few million but by a few billions. Get unemployment up to 9, 10 percent, all your estimates will go wacky. Because we got all those people working and paying payroll taxes into the fund, is it in fact much more solvent than the Blue Ribbon Commission anticipated, I believe. This surplus has been built by a consistent, persistent, growing economy with plenty of employees paying into it, and their employers.

I don't have the number yet, but I assume that is the right statement, is it not, Senator Heinz, that it is more solvent than anticipated when the Blue Ribbon Commission produced its actuarial evaluations?

Senator HEINZ. It probably is, Senator Domenici. May I just respond to a very good point you made about the fact that a growing American economy is the biggest and best protection to the Social Security Trust Fund that it could ever have. I think that is absolutely right.

There are a lot of people who question how we can continue to have a growing American economy if we continue to pile up as much publicly held debt as we are piling up. It is around \$2.5 trillion dollars out of the \$3.1 trillion of total debt. The National Economic Commission, of which the Senator from New Mexico served, as I recollect did not agree much on how to reduce the budget deficit. But as I recall it did agree on one other proposition, and that is that the Social Security Trust Fund, the surpluses should be removed from the budget deficit calculations and Gramm-Rudman-Hollings.

Now, my understanding of their reasoning was this, that over time it would be possible, if the trust fund was separated, for the trust fund to buy in the \$2½ trillion of publicly held debt that the Treasury has to recycle in increasing amounts every week and which drives up interest rates. It seems to me that the great economic opportunity that we can seize now which would lead to the growing American economy, both this decade and next decade, that we all want, is to buy in that huge publicly held debt for as much of it as we can. The numbers I have seen show we can get most of it bought in by 2010, depending on what kind of analysis you use. As a result of not having the Treasury out there competing, bidding up interest rates, the cost of borrowing for a house, for a car, for starting a small business, for expanding a business, would necessarily drop. Interest rates would drop. The cost of capital could come down.

I think all of us know that if there is one area where this country is not competitive today, it is in the cost of capital, and therefore it seems to me that the economic benefit, I propose, is the reverse of sack cloth and ashes. It is a booming American economy with competitive cost of capital that will be strong for decades to come.

Chairman GLENN. Thank you. Senator Sanford?

Senator SANFORD. Let me thank Senator Heinz for a very excellent presentation. He is one of the few people who has caught on to the difference between net interest and gross interest. We certainly need to bring this difference to light and do something about it. It is not easy to find this in the budget documents. I hope, indeed, we do make this a bipartisan affair, and I would do my part for that.

I want to ask you to elaborate on this question on which you have just had an exchange of views. I can see the validity, if we could freeze figures where they are, for Social Security to absorb the public debt, but what beyond that? You said we could build up a surplus of \$15 trillion or more?

Senator HEINZ. It depends whether you are talking current or constant dollars.

Senator SANFORD. You are talking about current dollars.

Senator HEINZ. I have got to tell you that I do not think any of us are very good at understanding either what a current or a constant dollar means when you get out in 2010 or 2015. It is a little easier to talk in terms of constant dollars. The reason I say I do not think any of us understand quite how to do that is there is an assumption that you have to make about the existing publicly held debt. If you assume that we did not do anything differently than we did and denominated the publicly held debt in current dollars in the year 2010, would it be the \$2.5 trillion it is today, or would it be the inflation adjusted version of \$2.5 trillion, which would be up around 10 trillion.

Senator SANFORD. Well, it would be related to GNP.

Senator HEINZ. Yes, it would.

Senator SANFORD. But not necessarily in the same ratio.

Senator HEINZ. I am in the process of preparing charts that do this as a percentage of GNP.

Senator SANFORD. I guess the question I want to leave with you, when we reach a certain point, whether it is equal to GNP, or 50 percent of GNP or—of course now the debt is 60 percent of GNP. When do we start worrying about having so much money in Government bonds that there is no way in the world, as good as they are, no way in the world that we can pay them back?

Senator HEINZ. I have two answers, a serious one and a slightly less serious one. The first answer, though, is, gee, wouldn't that be nice to have that kind of worry. The worry we have got today is one, gee, how do we get interest rates down with the Treasury borrowing a fortune, literally every Monday and Tuesday.

The serious answer to your question is that there is a lot of other high quality Government debt to which the full faith and credit of the Government is pledged beyond Treasury bills and beyond Treasury notes and any other such borrowing and it is called the full faith and credit general obligations of State and local government, which is a huge number.

Senator SANFORD. Yes, and there are certain other ways of investing money to give a boost to the economy.

There is not any question in my mind that we have got to turn to more creative investment practices at some point, and you could argue that time is now, or you could argue that you ought to eat up the public debt first. The problem with the latter is that we will not try to do anything about cutting that public debt down if the money is going to be there in the year 2004.

Senator HEINZ. I think the Senator makes an excellent point.

Senator SANFORD. I just wanted to leave that thought with you and hope we can work together on all of this.

Senator HEINZ. I thank the Senator, he makes a very good point.

Chairman GLENN. Senator Levin?

Senator LEVIN. Thank you, Mr. Chairman. Let me also commend Senator Heinz for his very thoughtful testimony, and I want to pursue your conversation also with Senator Domenici.

I happen to agree with your approach here that we should not count Social Security surpluses towards meeting the Gramm-Rudman deficit targets. I think it leads us to a false conclusion as to what our true deficit is and we should be honest with ourselves about what the true deficit is.

I also agree with Senator Domenici in what I believe his point was, which is that this legislation would not prevent the cash which is being raised today through the Social Security taxes from being used to pay our current bills. Is that correct?

Senator HEINZ. It would not be paid out of the trust fund, but the trust fund—to the extent the trust fund invest in Treasury bills and the proceeds derived from those Treasury bills was used for a purpose other than buying in the national debt—which it would be my first priority—to the extent it was not used to do that, the answer is the Federal Government can use that money, if it borrows from Social Security and Social Security invests in the Government, for any purpose it wants. But it seems to me that it is not the point.

Senator LEVIN. I agree with you, that that's not the point of the legislation.

Senator HEINZ. It seems to me that it is neither here nor there. It is what is going on in the general Federal budget that we ought to care about.

Senator LEVIN. I agree with that, but there is nothing in this legislation which prevents these funds that are being raised in Social Security taxes today from being used to buy those general—

Senator HEINZ. If I take your comment literally, the answer is they can only be used for investment in, at this point, U.S. Government securities. That is the only purpose that—

Senator LEVIN. And your bill doesn't change that?

Senator HEINZ. No.

Senator LEVIN. Okay. So we will continue to see the Social Security Trust Fund being used to buy T-bills or other Government securities, and then the proceeds from that sale to Social Security are used to pay general Government purposes; is that correct?

Senator HEINZ. That is correct.

Senator LEVIN. All right. I think there is a big value in your bill anyway, even though it doesn't prevent those taxes from being

used for general purposes. I believe it is important that we have an honest assessment of what our deficit is constantly in front of us, so that we can try to reduce that deficit in order to produce the kind of healthy economy which is going to really guarantee that the Social Security payments that will be owing will in fact be made. I think there is a very good value to your bill and to this approach because of its effect on honesty, which will force us, hopefully, to address the deficit which otherwise we would be less prone to do.

So I do support the approach, but I think it is important that we not see in it more than what is there in terms of its direct impact.

I thank you Mr. Chairman.

Chairman GLENN. Thank you very much. We are going to move along. Do you have anything else?

Senator DOMENICI. Yes. Mr. Chairman, I would want to comment on two things.

Senator Heinz, you were absolutely correct, the Economic Commission that was supposed to address the deficit couldn't do that, but both Democrats and Republicans addressed the Social Security surplus issue. We ended up with a partisan report. I am quite pleased to tell you that on the Republican side it was my suggestion that we write the report the way it was written, which essentially does not try to pick a year, because we are not convinced that it is one year versus another year when you get to a literal balance and begin to accumulate a surplus.

I wish we had enough clairvoyance to know when that year is, but obviously, it has got to be at some point and at some point we have to begin to build a unified surplus of significant sizes because that money then reflects the Social Security in the black, money there that is in surplus.

So I am not at all disagreeing. I think that is the case. My concern is that we truly find a way to protect the Social Security recipients and their current program. And while I commend you on what you have done, I am not at all sure that we cannot do it better, no reflection on the distinguished Senator from Pennsylvania.

Senator HEINZ. Mr. Chairman, I would say to my friend and distinguished colleague from New Mexico, if there is a better way to do, I am all for it.

Senator DOMENICI. I am close. It too might be subject to scrutiny, but I believe there is a way and I plan to introduce something called the Social Security Preservation and Protection Plan, and it goes a little further than anything we have had around with reference to making sure that we do not change in any way the current situation as contemplated by those, not only the seniors but the working men and women who are paying into it. You know, they expect to get these benefits when they get of age, so we have got a lot of people to protect.

Having said that, let me suggest, Senator, I am not at all sure—and on this I say to my good friend who just spoke—I don't know whether the country is better off if we use the Gramm-Rudman targets for the next 3 years or if we add the Social Security component to it. From the economic standpoint, from the size of the deficit standpoint, it is exactly the same. Your proposal changes noth-

ing through the Gramm-Rudman zero deficit year. You are still at the same——

Senator HEINZ. Well, I would be the first to admit that.

Senator DOMENICI. So it is in a very real sense—from the standpoint of those who claim truth in budgeting—it is cosmetic from the economic standpoint. But sometimes cosmetics are good.

Senator HEINZ. No, I would have to disagree with you. It does not change the actions that we are likely to take, however great——

Senator DOMENICI. Nor required.

Senator HEINZ. That is right. It does not change what is required of us, but it does show a very different picture, and that is that our task is tougher than we have heretofore demonstrated in the numbers. Instead of the task being reducing the deficit from \$100 billion to zero, we have to reduce it from, as of October 1st, \$168 billion to zero, and that is clearly tougher. What it means is that there are more years of living with Gramm and Rudman and Hollings than we had anticipated.

Senator DOMENICI. I agree with that. I am not at all sure anybody wants to live with it that long, but I am quite sure we are going to live with it.

Senator HEINZ. Well, them or it.

Senator DOMENICI. We are going to live with it or something like it for a long time.

Chairman GLENN. Hollings a divorce, I think.

Senator DOMENICI. Hollings wanted a divorce and the other 2 fellows said they wanted an annulment.

Chairman GLENN. Thank you, very much, Senator Heinz.

Senator HEINZ. Mr. Chairman, I ask unanimous consent that a full copy of my testimony be placed in the record.

Chairman GLENN. Without objection it will be included in the record.

Thank you, this hearing has been very informative this morning. Very good.

Our last witness this morning is Senator Coats. Senator, you have been very patient this morning. We appreciate you staying here with us this long. It has been a long hearing, and we look forward to your testimony.

TESTIMONY OF HON. DAN COATS, U.S. SENATOR FROM THE STATE OF INDIANA

Senator COATS. Thank you, Mr. Chairman. I will be brief and ask unanimous consent to submit my entire statement for the record.¹

Chairman GLENN. Without objection your entire statement will be included in the record.

Senator COATS. I want to thank you for the opportunity to testify before this joint hearing. As some of you may know, Senator McCain and I, together with 31 of our colleagues, have fashioned a piece of budget reform legislation, S. 1553, called the Legislative Line Item Veto. I am not sure that is exactly descriptive, because it is more in the nature of a rescission.

¹ See p. 158.

There is a House companion that was introduced by Representatives Tauke and Penny, and they also have 31 cosponsors in the House, and the President has endorsed this particular legislation.

This measure is a compromise version of several rescission bills that have been introduced in the Senate. We have gone back and looked at those that have been both introduced and voted on in past years and attempted to modify them so that it meets many of the objections that were raised by the those that did not support it in the past.

Let me very briefly describe the bill's provisions. First of all, it basically amends the Budget Control and Impoundment Act of 1974, not by changing current law but by adding a new title. The current rescission procedure is left in place, but we have added an improved new title. This new power would allow the President to rescind, in whole or in part, budget authority not previously rescinded in the previous fiscal year.

These cuts now go into effect unless Congress passes a resolution of disapproval within 20 days. In other words, if the President sends a rescission based on this new authority, they will automatically take place unless both Houses of Congress pass a disapproval resolution within 20 delays.

The President under this new proposal would have two opportunities to use this new power. First, he could submit rescissions at the beginning of each fiscal year along with his budget request. And second, he could submit it—and that is a 20 day period also—and second, he could submit it within 20 days of signing each appropriation bill that comes before him.

Several arguments have been used against this in the past, one a constitutional argument. We believe that by defining specifically what findings the President has to make and by requiring a two-house approval we meet those constitutional objections. Secondly, it has been argued that because rescission only applies to a portion of the budget, we really couldn't affect that much. I would just remind the panel that over the past 13 years the Presidents' rescission proposals have totaled nearly \$35 billion. Had Congress enacted less than half of those, we would not have been faced with our sequestration problems that we are currently faced with this fall.

Now thirdly, it has been argued that the process gums up on already crowded schedule. We have adopted expedited procedures relative to the amount of debate, the fact that no amendments could be offered, and the fact that the President must submit—and can submit under this procedure—only one rescission. So we are not dealing with a whole series of rescissions under any particular appropriations bill, we are dealing with one rescission which Congress must accept or reject in whole.

We think this is a useful new tool to redress the imbalance that currently exists. I understand the reasons for the Budget Act in 1974, the impoundment problems that occurred under President Nixon, but I think clearly the procedures put in place to give the President rescission power have not been effective. In 1987 President Reagan submitted 73 rescissions to Congress and only 3 percent of those were enacted, in 1986 only 5 percent were enacted. In

fact, since 1986 162 rescissions have been sent to Congress, only six have been enacted.

And so it is our feeling that we are not shifting power from Congress to the Executive Branch in an unequal way, but we are simply trying to equalize that, and that provision of an enhanced rescission type of power to the President under a new title would be an effective tool to cut spending. It is not the total answer to our deficit problem but one that we think the American people would accept, and in fact have endorsed, that 43 governors now have, and a power that the President ought to enjoy.

I would hope that given what we have just gone through with the reconciliation process in the last couple of weeks we could apply a good Government or statesman-like approach to this. We all know that the process is bogged down with pork barrel projects that would never stand on their own two feet. I think having this authority would preclude Congress from the temptation of adding unnecessary spending, spending projects that most know could never receive a majority of support on the floor of the Senate or the Floor of the House, to a bill which the President otherwise has to sign.

In a way it is a form of blackmail. We wait for the best vehicle to come along and we wait for the budget crunch or the crisis, the funding deadline, and then we are all guilty of attaching our favorite projects.

I think this would apply some discipline to the process. It would equalize the nature of the distribution of power between the two branches, and I wanted to bring that before you this morning for your consideration as you look at ways that we can improve our budget process.

Thank you.

Chairman GLENN. Thank you very much, Senator Coats.

How would your rescission work? You indicate that it would be only one document. In other words, if there were a series of rescissions, you would not have the option back here in Congress once the President made his decision and sent it back to us; it would be an all or nothing package? In other words, he would have all his rescissions in one package; is that correct?

Senator COATS. For each appropriation bill the President could submit, if he wished, one rescission which would include the total number of rescissions he wanted out of that particular appropriation.

Chairman GLENN. You mentioned you felt you got around one constitutional problem on this proposal by going to a two-house approval or a two-house vote on the rescission process.

But how about the other constitutional problem; the power of the purse being limited to the Congress? We are the ones that have that power of the purse here, and that is true whether you have a one-house, two-house or whatever. Is that another problem constitutionally?

Senator COATS. We don't believe it is. We have submitted the bill to CRS and others for examination on that basis and they have not indicated that that is a problem. We have clearly given the President some of that authority, and in fact the current rescission

power that is part of the Budget Control Act of 1974 does give the President the authority to submit rescissions.

We keep that in place, and we simply add a new title. Primarily what we are doing here is expediting the procedure, and we are reversing the presumption. We are saying that if the President recommends a rescission it is effective unless overturned, whereas under the current situation it is not effective unless Congress approves it.

While the court cases have not directly addressed this particular problem, we think there is ample authority and precedent to indicate that this would stand the constitutional test.

Chairman GLENN. One of the other things that is tossed up against a line item veto sometimes—and I have been concerned about this part of it too—I want to cut out all the pork we can, obviously, and we all have our own little projects on this, but, you know, there is such an enormous amount in there now, I would like to see a way of cutting them out.

But if you had a very politically oriented President, one of the things against a line item veto is he could use that politically unfairly against particular members of Congress that he wanted to take some action against for whatever reason, politically or to force them into votes on other things or whatever, and that has concerned me.

I think we have seen politically oriented presidents that I would not have said would not do that. And that concerns me. How do we take care of that?

Senator COATS. Well, I think—

Chairman GLENN. Maybe the danger from that isn't any greater than what is going on with the pork barrel we have evident in the budget sometimes, but—

Senator COATS. I guess I would have a couple of responses there. One, I think if it became clear that a President was utilizing his rescission power for political purposes, members would rally to the support of their colleague through the procedures that we allow to demonstrate to the President that we are not going to allow that to happen.

Secondly, I guess I would ask the question, if we don't now do that in reverse? Don't we politically blackmail the President to some extent by attaching our favorite little projects that we know we could never successfully move through the body were it to stand on its own, by attaching that to a bill that we know the President has to sign at midnight or 11:59 before the Social Security checks are stopped or whatever. And I think there is a balance that has to be achieved here and we hope that we have achieved that in our legislation.

Chairman GLENN. Senator Domenici.

Senator DOMENICI. Senator Coats, let me first compliment you for this approach. I think you have taken a myriad of different approaches that have been bantered around for years and put them into something that answers many of the questions that have been raised. For instance, the Chairman asked about an all-in-one package. You have come up with the idea of each appropriations bill. I think that is an interesting concept and I compliment you for it.

I have just one question, and I know you are good on your feet, even though you are sitting down.

Senator COATS. It depends on how complex your question is, Senator.

Senator DOMENICI. My first question is, do you have any views as a Senator, on whether the President of the United States already has this authority? Do you have any thoughts on whether it is a worthwhile endeavor by a President to exercise this authority? Some will say the Constitution already gives him this authority.

Senator COATS. Well, if you are referring to line item veto authority, there are some that make that claim. Apparently there is enough concern in the Executive Branch that he might not have it to not want to test it in the courts. This technically, even though it is called legislative line item veto, is really enhanced rescission. It is a second rescission power, and it is somewhat different in that respect.

Senator DOMENICI. My last question is related to the observation the Chairman made in asking about political blackmail by a President. Obviously, we will never know that until we try it, but I can say to you there have been a couple of Senators raised an issue with me when they knew they were deciding a vote on a major issue for this country, that they were very concerned when they had to go down to the White House and tell the President, I can't do it. It is little different than governors. They always talk about governors, but is it a little different if the issue is the Panama Canal treaty.

Senator COATS. Well, it is, and I think that is a legitimate concern. And as I told Senator Glenn, I think we would be quick to rally around our colleagues, even if we might not support that particular piece of spending, if we thought that the President was leveraging that against a votes on an unrelated matter.

And secondly, I think we have to ask ourselves if we don't do the reverse. When the Social Security checks are about to stop and we know that the President has to sign the bill, or the veteran's health benefits or whatever, we look at that and say, this is the vehicle, let's load it on there, Mr. President, I dare you to veto that particular bill.

Senator DOMENICI. Sort of a little bit of blackmail versus a great big blackmail, maybe.

Well, let me suggest to you—because I am trying to be helpful—your bill is not sunsetted, is it?

Senator COATS. It is not sunsetted. I would be happy to consider a sunset if I could get the Senator's cosponsorship of the bill.

Senator DOMENICI. Oh, you don't need to worry about my cosponsorship. But what I am thinking is that maybe in response to the question of how are we going to know, maybe the answer would be let's try, and the way to do that may be to say it will last for 4 years or 3 years and then we will look at it and see. It might gather you up a little more support.

Senator COATS. I think we all recognize that the current system just isn't working. The rescission envisioned by the Budget Control and Impoundment Act of 1974 has not been utilized, I don't think, the way Congress intended. I wasn't serving here in 1974, but clearly the numbers show that for one reason or another it is not work-

ing, and I think some of us know the reasons, and that perhaps it needs some fine tuning or some changing to see if it can work and see if it can be a tool in dealing with some of the problems that we have.

Senator DOMENICI. Thank you, Mr. Chairman.

Chairman GLENN. Thank you. We have a former Governor here who has had line item veto experience.

Senator Sanford.

Senator SANFORD. Well, oddly enough, North Carolina is the only State in the union where the Governor doesn't have any veto.

Chairman GLENN. Does not have?

Senator SANFORD. If you are clever enough you don't need it. [Laughter.]

Chairman GLENN. Tell us how you get that clever. Maybe that is the answer.

Senator SANFORD. Well, you know, the Governor has a whole lot of little pork barrels of his own. He can pave highways for people and little things like that.

What is pork barrel?

Senator COATS. Well, perhaps that is not an appropriate term. Let me define it this way: Legislation that most of us know would not be successful were that particular piece of legislation brought to the floor and debated on its merits.

Senator SANFORD. Well, I think several years ago President Reagan cited research for catfish and suggested that was a ridiculous kind of an appropriation. The cost was not that much—\$2 million or \$3 million—and he would strike that kind of funding if he only had the line item veto.

It occurred to me that it might not be pork barrel after all, especially if it were debated on the floor, because I think Bennett Johnston could have made a pretty good case that it was a very worthwhile investment. So one man's pork barrel might not be another man's.

But what I really want to ask is Would line item veto cover this kind of a situation as you see it? The budget comes over, and it goes back with virtually the same number of dollars, but with a little changing around of funds. For example, we might take a little bit off of defense and put another \$2 billion on education.

What could the President do in that case with the line item veto, and do you anticipate it would apply to that kind of a situation? All the programs, of course, that were in the President's budget were still in this budget, but the amounts were shifted a little.

Senator COATS. This authority would not extend to the submission of the budget by the President, or—

Senator SANFORD. No, I mean when it comes back to him, as an appropriation, is that the kind of thing he can line out, the increase?

Senator COATS. The President, when he receives—under this proposal—when the President receives an appropriation—in this instance the education appropriation—the President could submit to Congress a rescission which would contain a number of items indicating spending based on his findings that—

Senator SANFORD. My point is can he cut out 10 percent of an item?

Senator COATS. No, he has to rescind——

Senator SANFORD. So if we raised early childhood——

Senator COATS. I am not sure I got that answer. Let me see. I am not 100 percent sure.

He can rescind in part or in whole.

Senator SANFORD. So he could take——

Senator COATS. He could take part of that out for a particular area, yes.

Senator SANFORD. That then would give him the appropriating authority that constitutionally does belong to Congress.

Senator COATS. Well, we believe that the provisions there, that with the ability of Congress to disapprove that, we preserve the authority of Congress.

Senator SANFORD. But you in effect put a two-thirds requirement.

Senator COATS. Yes, would if the President vetoed Congress' majority vote.

Senator SANFORD. If the President line item vetoed a little piece of appropriations, that would require two-thirds by Congress to overturn? So in other words, he would have an upper hand unless we could mobilize all the catfish farmers.

Senator COATS. Yes. To the extent that he now has that power.

Senator SANFORD. Well, I think it is an important difference, and that is what I wanted to find out. Because there is not any question that the President now can get at these little items which might be defined as pork barrel. But if he can change any item in any amount, that strikes me as being of a considerably different magnitude and consequently much less chance of getting passed, if he could veto anything that was not included in his budget.

Presumably, 95 percent of the lines proposed by the President are approved by Congress. But if the Congress felt the priorities should put more emphasis on education and less on defense, you are saying that the President could undo that?

Senator COATS. The President under this proposal would have the authority to submit to Congress the rescission for part of the appropriation, or a percentage of the appropriation, as you suggest.

Senator SANFORD. Could he cut beyond what he had recommended initially?

Senator COATS. Yes, he could. He has the authority here, as he now has, to submit the rescission. But what we are doing here is making the rescission effective unless it is overturned.

Senator SANFORD. Well, I think the reason that he has the rescission now is because it is not very effective.

Senator COATS. I'm sorry, I didn't hear the Senator.

Senator SANFORD. I think Congress goes along with that rescission since it is not an absolute right.

Senator COATS. Because it doesn't work.

Senator SANFORD. Well, it works very well from the Congressional point of view.

Senator COATS. That's correct.

Senator SANFORD. Well, thank you. I just wanted to clarify that, because a lot of people have different definitions of what line item means.

And most governors, as a matter of fact, Senator Glenn, wouldn't have that authority to diminish it, only to cut it out or leave it in.

But they also have a far greater authority just not to spend funds, which the President doesn't have.

Thank you very much. Thank you, Mr. Chairman.

Senator COATS. Thank you.

Chairman GLENN. Thank you, Senator Coats. Thank you very much. You have been very patient this morning. We appreciate your willingness to stay here this long. I am sorry it has gone on this long.

We will reschedule another hearing for the other three witnesses scheduled to testify. Senator Sanford, Senator Kohl, and Senator Conrad will be our witnesses at the next hearing. We will try and schedule it sometime in the middle of next week. We will have to work out our time, depending on other Senate schedules.

The hearing will stand in recess subject to the call of the Chair or until we announce that next joint hearing, whenever the time will be. We will get that announcement out as soon as possible. Thank you.

[Whereupon, at 12:50 p.m., the hearing was recessed subject to the call of the Chair.]

BUDGET REFORM PROPOSALS

THURSDAY, OCTOBER 26, 1989

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS, AND THE
COMMITTEE ON THE BUDGET,
Washington, DC.

The Committees met, pursuant to notice, at 10:05 a.m., in room SH-216, Hart Senate Office Building, Hon. John Glenn, Chairman of the Committee on Governmental Affairs, presiding.

Present: Senators Glenn, Nunn, Kohl, Roth, Sanford, Conrad, Robb, Domenici, and Kasten.

OPENING STATEMENT OF CHAIRMAN GLENN

Chairman GLENN. The hearing will be in order.

This morning we are continuing the Joint Hearing of the Governmental Affairs Committee and the Budget Committee, to consider ways to improve the Federal budget-making process. Senator Jim Sasser, who is the Chairman of the Budget Committee, was to be here this morning, but he was called to a special meeting over there on some other matters with the Majority Leader. He will join us later if he is able to do so.

In the middle of a sequester when we are all wondering whether the existing budget-making process has served us well, this hearing is especially valuable and timely. As the current crisis shows, the existing methods and procedures we follow in putting together the budget may have failed us. That is just the process by which we put all this together, and I think we urgently need to examine reforming the process of budget making if we are to start making more sound budgetary policy decisions.

We had an initial hearing on this last week. We had a long and very good discussion, for those of you that were here. The room was pretty filled. I'm sorry we don't have all of those same people back today, because we have some excellent proposals that some of the Senators are proposing.

The various proposals we will hear about today cover a wide range of potential remedies for budget-making reform. These include moving to a biennial budget, transforming the Gramm-Rudman-Hollings deficit reduction process, and shifting to capital budgeting, among other suggestions.

Once again we are honored to have as witnesses this morning our own Senate colleagues who have spent a great deal of effort crafting these proposals, and I look forward to their testimony very much. We have the three Senators we were not able to get to last week, not because their proposals were considered any less worthy

than others, but just because we did not have time to complete the hearing last week.

Senator Sanford was to lead off this morning, but Senator Kohl is going to have to preside over in the Senate shortly. Senator Sanford has indicated that Senator Kohl can go ahead and then he will follow. The other Senator we have later on is Kent Conrad.

So Senator Kohl, if you will lead off this morning, we will do what we can to get everything done as fast as we can. I understand that there is a cloture vote at 10:30. That will give us about 25 minutes here before we would have to leave to get over there, so I think that should be sufficient.

TESTIMONY OF HON. HERBERT H. KOHL, U.S. SENATOR FROM THE STATE OF WISCONSIN ¹

Senator KOHL. Thank you, Senator Glenn. I appreciate being here this morning and I very much appreciate Senator Sanford's willingness to let me go first.

I would like to discuss two proposals that I sponsor. One of the these bills would restructure our budget format, while the other is aimed at closing a loophole in our current budget procedure.

I would first like to describe my budget reform package, S. 1572. This bill is largely based on work done by the GAO. While the GAO may differ with some of the particulars of this proposal, for what it is worth I believe S. 1572 generally represents the way they also think we should proceed. In fact, GAO recently released a report entitled "Managing the Cost of Government," which report highlights what I believe are the strengths of this approach.

I was motivated to introduce this bill by several concerns. One was the treatment of Social Security. Another was the lack of investment in our infrastructure and other capital goods. And, of course, the third is to get a much better handle on our budget and our budget deficit.

The budgetary treatment of Social Security has been the focus of several bills and much debate. Some people feel Social Security should be off budget. Others feel that would do violence to our unified budget. I think each side has some merit. This morning's Washington Post ran an excellent article that highlights some of the pros and cons of moving the program off budget, and I ask unanimous consent that a copy of that article be included at the close of my testimony.

Chairman GLENN. Without objection, it will be so ordered.

Senator KOHL. On the one hand, proponents of moving Social Security off budget correctly believe doing so would better highlight the situation with the rest of our budget. We need to show the American public where the source of our deficit is, and that is why I support such bills as Senator Hollings' and Senator Moynihan's.

But the time has also come to dispel one myth. Moving Social Security off budget by itself does not protect the trust fund for future generations. Even with Social Security off budget the Social Security surplus will continue to flow to the general revenues. Changing that situation would require far more radical surgery than anyone

¹ See p. 165 for Senator Kohl's prepared statement.

is proposing today. Nonetheless, I think there are important distinctions in the financing and expenditures of Social Security and some of our other special programs, and those distinctions should be reflected in the way we present the budget.

At the same time, we don't want the way we present the budget to hide the reality of our spending. Sound budgeting requires that a dollar spent on a Federal program should be counted as a dollar spent in our budget. As a businessman I can tell you that it would be very strange for any business in the private sector to ignore a program that accounts for one-fifth of all spending and one-quarter of all revenues.

In addition, if we move it off budget what controls would there be to prevent massive increases in the benefits or cuts in payroll taxes? We may or may not believe Social Security should be part of a deficit reduction package, but I think there is wide agreement that we should not go on a binge of increasing the benefits or decreasing the revenues for the program. And yet, moving Social Security off budget opens us to just that problem.

I should note also that this debate concerns more than Social Security. Last Monday I received a call from hospitals who wanted to see Medicare taken off budget along with Social Security. The Post Office is heading for off budget status any day now. Senator Domenici has long made the point that we need to control the surge to off budget status of so many programs.

In addition, the pressures on spending have led to a proliferation of off budget "Government Sponsored Enterprises" such as the Resolution Trust Corporation. These agencies are often very difficult to distinguish from normal Government entities. Since we enacted Gramm-Rudman we have created five off budget Government sponsored entities. Only one was created in the previous 13 years. No one knows what is going on in these agencies, but we do know they are exposing the taxpayer to potentially huge liabilities.

I believe S. 1572 offers the best way to address these concerns. It recognizes Social Security's special status while it maintains the integrity of the unified budget. My bill provides as much protection for Social Security as the other proposals which we are considering without creating all the problems of off budget status. It would also provide a sensible way to stop the rush to off budget status.

Table 1 in my testimony and the chart to my right describes how the budget would be presented. Under my bill all Government spending is divided into three categories, trust funds, enterprise accounts and general spending, and each of these categories is then divided between operating and capital spending. The trust fund category includes all receipts and expenditures in programs Congress has labeled as trust funds. The list of trust funds is given in Table 2 of my testimony. The enterprise category includes programs designed to be largely self-sufficient. The list of entities included in that category is given in Table 3.

And finally, general spending is a residual account including all spending programs not listed in the enterprise or the trust categories. This includes most of the everyday activities of the Federal Government. Senators Sanford and Simon would be especially interested to note that gross interest payments are reflected in the general account. The cost of interest payments to all recipients,

both the public and Federal agencies, are included in the general account column.

This method preserves the unified budget by including all programs in one of these three categories, and yet it also allows important distinctions between the programs to be reflected in the budget. As the chart—which is reproduced in Table 1—makes very clear, the deficit is traceable immediately to our general accounts. The surplus in our trust accounts has cross-subsidized both the enterprise and the general spending accounts, and this should stop. My bill would stop it by setting deficit reduction targets for the general and the enterprise accounts.

The exact path of the deficit reduction targets is less important than establishing targets for the proper accounts. While we can allow the surplus to grow in the trust funds, we are at the same time forcing more responsible spending policies in the two other categories.

This should lead to a unified budget surplus, and that is what our bill would also mandate. Targets would be placed on the unified deficit to ensure that the overall budget achieves that surplus. This will protect us from abusing the trust accounts by ballooning spending there beyond that called for under present law.

The capital budgeting portion of our proposal is very important. It makes little sense to count a dollar spent on airplane fuel in the same way that we count a dollar spent on the airplane itself. In addition, almost everyone agrees that the way we account for loans and loan guarantees needs to be overhauled. All of these issues can be dealt with by breaking out capital expenditures in the budget.

Nonetheless, I still have several unresolved questions about these issues. The handling of depreciation and human capital are just two examples. I therefore think it would be reasonable to phase in a capital budget over the next few years as we untangle some of the issues involved, and GAO is currently working on most of these questions.

In addition to this effort to restructure the budget, I would like to mention one other proposal designed to reform our current budget procedures. All too often we use unrealistic economic assumptions to understate the projected deficit. S. 1162, a bill I introduced and now cosponsored by Senators Conrad, Robb, and Nunn, is aimed at this problem. I just don't think economic and technical assumptions should be the subject of negotiations. Basically S. 1162 would take those issues off the negotiating table.

Under that bill, Congress would be bound to the economic and technical assumptions of CBO. While the Administration would not be directly bound, they would be unable to manipulate economic assumptions in negotiations with Congress. Any agreement Congress and the White House reached would have to pass muster under CBO assumptions. Any agreement unable to do so would face a 60 vote point of order here in Congress.

I am not claiming that CBO is infallible, or even necessarily better than OMB. I am, however, asserting that CBO will be free of the taint of political manipulation. Mandating CBO economic assumptions should help us focus on real deficit reduction and away from smoke and mirrors.

Finally, I might add my support for Senator Conrad's "Look Back" proposal. I believe that change would go a long way towards stiffening our spines during debate on reconciliation and appropriation bills.

I would like to thank Senator Glenn for holding this hearing and I am sure that there is much that we can discuss with all the proposals that have been made and I really hope that we are going to make some progress.

Chairman GLENN. Thank you, Senator Kohl, for a good statement.

Almost every day we have a lot of talk in the paper about many different proposals, many different parts of the budget. One of the ones that is of the most concern to us, and I am sure is a concern to you, is Social Security, whether we take it off budget. How do we handle that? There have been a number of proposals to take it off budget and not have it included in the totals required for the Gramm-Rudman-Hollings deficit bill determination.

Could you tell the Committee how your legislative proposal fits in with these proposals and how it affects the Social Security system over the long haul?

Senator KOHL. Well, as I said in the testimony—I will just elaborate for a second—I think it would be a bad mistake to take Social Security entirely out of our focus and out of our vision. Social Security is a real number. We are both taking in money and spending money. What we need to do is keep it in focus while at the same time not use it to mask the real deficits that are occurring in our Government.

And I think when you look at the chart you see that, number one, we separate off Social Security so we are able clearly to see that primarily it is the general operating expenses of our country that are creating the huge deficit we have while at the same time we maintain the trust funds, including Social Security in a special column—it is the third column—so that everybody focuses on it, Congress focuses on it. We focus on the surplus that is accumulating.

We want to continue that accumulation of the surplus, and it seems to me once we take it off budget entirely and put it into a special account that nobody ever looks at, we won't do that. And number 2, the temptation will be very great to spend that surplus on either increasing benefits or to accommodate our elderly population by reducing taxes, because it wouldn't be incorporated into the budget. So I think it would be a huge mistake to take it entirely off budget.

Chairman GLENN. The President right now is required to make certain reports to us under Special Analysis D of the budget that he submits to us. How is what you are proposing in S. 1572 different than what the President already does in that Special Analysis D?

Senator KOHL. Well, as I understand it, he makes his assumptions and presents an analysis. His assumptions are based on economic numbers that are drawn up by, in effect, his own employee, OMB, and those numbers are drawn up to correspond to whatever the President wants the budget to look like, and there is nothing that prevents them from using numbers that, as we know—interest

numbers, economic growth numbers—assumptions that are inaccurate in many, many cases, just simply to make the Gramm-Rudman targets.

Well, part of what I am proposing this morning is that we stop using OMB, at least here in Congress, but we start using CBO assumptions, which will make it impossible for the Administration to manipulate the numbers the way they have been; any administration, Republican or Democrat, this is not partisan.

Chairman GLENN. We will operate under a 5 minute rule here this morning.

A great part of the spending done by the U.S. Government could be characterized as investment. There are obvious cases, such as grants to mass transit systems, the strategic petroleum reserve, the space center and the shuttle program and there are less tangible examples of investment such as Federal support for basic R&D—we don't know what the outcome will be—loans to students pursuing higher education, and Federal funding of drug treatment centers.

Could you give us an idea how S. 1572 defines the capital budget and how you decided on that particular definition?

Senator KOHL. Well, the definition of what exactly would go in specifically would be a negotiating process that we would go through, but what the bill is intended to do is to make it very clear that money we are spending on investment, real investment, should be categorized as such versus money we are spending, for example, on payroll.

I think that we need to know, and the country needs to know that there are two different categories of spending. One is everyday expenditures of things that are gone after you pay for them, and the other are investment in real, tangible assets. And what the capital financing part of my bill will clearly demonstrate is that which is spent on capital assets and which is not used up after the money is invested. I think that is very important that we understand that.

Chairman GLENN. Thank you. Senator Sanford was here under our early bird rule. I guess Senators Sanford, Conrad and then Senator Nunn.

Senator SANFORD. I pretty well understand Mr. Kohl's plan and have gone over it. It is all in the record, and I believe I will not ask any questions.

Chairman GLENN. Senator Conrad?

Senator CONRAD. No questions.

Chairman GLENN. Senator Nunn?

Senator NUNN. I just appreciate the leadership of Senator Kohl, Senator Sanford and Senator Conrad, as well as you, Mr. Chairman. I believe that this is a key subject and I don't even think we have started to think seriously about it as a nation. So I think these hearings are very important and I am glad some people are taking the lead on it. So I congratulate Senator Kohl for these ideas, and I know that Senator Conrad and Senator Sanford also have some that we will be hearing about.

Senator KOHL. Thank you. I would just like to define the asset question that you asked, Senator Glenn. The definition of assets in the capital financing requirements are assets that last 2 years costing \$100,000 or over. That is the definition of assets in that column,

at least a life of 2 years, costing \$100,000 or more. And this is a GAO definition that we are incorporating into our bill.

Chairman GLENN. Good. We may have other questions that other members may wish to submit to you. We would appreciate your early reply for the record.

Senator Domenici, do you have any questions before we proceed?

Senator DOMENICI. How is your jaw? [Laughter.]

Chairman GLENN. A little tender but all right.

Do you have any questions, Pete?

Senator DOMENICI. No, I just wanted to thank the Senator for his constructive testimony. The concerns that you had here today, some of them I share and hopefully we can get to a point in time where this process is more orderly, understandable and realistic.

Thank you very much.

Chairman GLENN. Thank you, Senator Kohl. We appreciate it.

Senator KOHL. I would like to again thank you for having me, and I would like to thank Senator Sanford for letting me go first.

Chairman GLENN. We have a vote coming up in about 3 minutes. We will stand in temporary recess until after the vote.

[Brief recess.]

Chairman GLENN. The hearings will resume.

Senator Sasser is still tied up in the meeting I referred to earlier, and as a member of the Budget Committee he was going to introduce Senator Sanford. I will make some of his remarks for him. I talked to him a few moments ago and he is still tied up and is sorry he can't be here.

Senator Sanford has been interested in budget reform since he arrived in Washington, and as a freshman member of the Senate Budget Committee he offered a thorough review of the President's budget proposal for fiscal year 1988. He then began questioning the creative accounting, and "creative accounting" is not a term of art. It has been more creative around here trying to figure out how to keep from going into Gramm-Rudman sequester than anything I've seen in 15 years in the Senate, with procedures like shuffling things from one year to another.

But he began questioning this creative accounting used in the Federal budget process. Senator Sanford was one of the first members of Congress to introduce legislation that would eliminate the use of the Social Security trust funds in calculating the deficits under Gramm-Rudman-Hollings. He has since expanded that concept, and this January he introduced budget reform legislation to remove more than Social Security from annual deficit calculations.

Our Committees are indeed anxious to hear his far-reaching proposal today, and we welcome him this morning.

Senator, I know from my personal discussion with you in my office, where we spent about an hour going over your proposals, how much work you have done on this and how thoroughly you have gone into it. You have drawn on your long years in public service as well as your years as a governor where you had to deal with budget matters there. You are bringing a wealth of background and experience to what you are proposing today, and so we look forward to hearing your testimony.

Senator Roth, do you have any comment to make before we proceed?

OPENING STATEMENT OF SENATOR ROTH

Senator ROTH. Very briefly, Mr. Chairman.

I am pleased that once again the Governmental Affairs Committee and Budget Committee are continuing these hearings on the budget process reform. I think it is important that whatever budget reform ideas the Congress considers, that the ideas be thoroughly considered and are sound fiscal and economic policy.

Today the focus shifts to the structure of the budget, and specifically the trust fund issue. And while this may appear to be a structural issue, it indeed has some very, very important policy implications. It is important to consider how the trust funds will be invested.

Today the trust fund is 100 percent invested in Treasury securities. By market signals this is the safest investment in the world. My concern is that by isolating Social Security from the rest of the Government, Congress could be opening up the trust fund to mischief. Now, if Congress insists on separating Social Security from the budgeting process, there ought to be some kind of a compact with the nation's elderly to regularly make a complete individualized disclosure of all investments made by the trust fund and the relative financial risks of those investments.

Just let me say, Mr. Chairman, I too want to welcome Senator Sanford. I know he has a very thoughtful proposal and he comes here with a wealth of background not only as a Senator but a governor and president of a major university, so that I think he has some insights that are particularly worthwhile, and I welcome seeing him today.

Chairman GLENN. Senator Domenici?

Senator DOMENICI. I thank you, Mr. Chairman.

Senator, I really welcome your testimony. I have noted with interest your genuine concern, and obviously it is difficult to go from where we are and where we have been to a brand new system. But, obviously, the time is right to take an overall look at what we have been doing and ways to do it better and I think that that is what your ideas are and I congratulate you for them. Thank you.

Chairman GLENN. Senator Sanford.

TESTIMONY OF HON. TERRY SANFORD, U.S. SENATOR FROM THE STATE OF NORTH CAROLINA¹

Senator SANFORD. Thank you members of the Committee. It is an indication of how difficult it is to work schedules together and the difficulty of finding time to talk about this subject, but I am pleased now to have an opportunity to present it and to get it into the record and available for consideration by the two Committees if they are so inclined.

This is a little bit different maybe from just restructuring the budget. I haven't looked at it in that way. I come with a fair degree of experience in budgets. And I didn't ask to be on the Budget Committee, but having arrived on the Budget Committee, I reached back to the experience I had as governor when the governor indeed is the budget director in our State and responsible for keeping it

¹ See p. 182 for Senator Sanford's prepared statement.

balanced under a constitutional amendment, and in my view, responsible for creating a surplus every year, which we did.

When I arrived at Duke, the university was operating in the red for the first time in its history, but nothing like the red we are operating in now in Washington. Without changing too many things, looking at the weaknesses, Duke University never had anything but surpluses since that time.

For 2 years, I have run this reform proposal as I developed the concept, by virtually every economist that I could reach. I have run it by 400 chief executive officers of corporations. I have asked a great many Members of the Senate to look at it. What I am trying to bring to our attention is not so much a restructuring. I don't suggest that we abandon Gramm-Rudman, because I can find some very, very good things in Gramm-Rudman. I simply suggest that we strengthen the weaknesses that have permitted the Gramm-Rudman process to allow concealment of the true size of the deficit.

Gramm-Rudman-Hollings probably has had its day, but that does not mean that it cannot be refurbished. We certainly can retain the concept of the reduction or restriction of expenditures. It has served that purpose. It has served the purpose of a scheduled deficit reduction, and it has proven that the White House and the Congress can practice a degree of self-discipline. The continued use of the point of order and sequestration to enforce the scheduled goals of debt reduction has been effective. I would retain these provisions of Gramm-Rudman.

But I do think it is fair to say we need a new mechanism to go with these concepts. I call my proposal the honest budget. I think it is a fairly simple proposition. How do we develop a process that is not subject to the temptation of creative accounting? This hearing is very timely this morning because we are debating reconciliation. We are claiming that we are working toward \$110 billion deficit, working toward a path that will eliminate our deficits, when we know this is not true. Right now within a day or so, or certainly next week, we will be increasing the debt limit for the second time this year. If we are reducing the deficits, then why are we increasing the debt limit? If we are really on a path of deficit elimination, we should be lowering the debt ceiling, not raising it.

So I have developed a simple concept, that we are working toward an honest budget. I have several charts to illustrate my point. During the 1980s we moved from a deficit just below \$1 trillion to a projected estimate of \$4 trillion in 1993 when the present Gramm-Rudman-Hollings targets are scheduled to reach zero. So on one day we would announce that we had reached zero. On the next day we would have to announce that we were facing the debt interest carrying charges on a debt of \$4 trillion.

The second chart illustrates the cover-up. In the fiscal year 1988—the most recent year with actual figures available—we claimed a deficit under Gramm-Rudman-Hollings of \$155 billion, yet we actually increased the debt that year by \$255 billion. That leaves \$100 billion in creative accounting, tricks that I believe should have been included in our deficit figure for 1988.

The deficit in 1988 should have been, if honestly shown, \$255 billion, not \$155 billion. Using my definition of deficit we avoid the opportunity to cover-up.

If you look at the fiscal year 1993 projection, you will see that the deficit cover-up grows dramatically to over \$300 billion. The Congressional Budget Office estimates that our debt will increase by \$307 billion in 1993, the year Gramm-Rudman-Hollings is scheduled to reach zero.

The cover-up involves a great many things. It involves, as we know, the trust funds, principally the Social Security annual surpluses. It also includes other retirement funds, annual surpluses, the Highway Trust Fund surpluses, the Airport Trust Fund surpluses, and the interest paid by Treasury on Government bond holdings that are held by Social Security and other trust funds. That is most of the cover-up. Transfers across the fiscal year boundaries, phony projected asset sales such as the sale of AMTRAK and using those figures year after year and other gimmicks are also part of the cover-up.

We may not be able to eliminate the use of questionable assumptions, but we should try to do that. If we require the use of gross bottom line figures, we will be much closer to honest budget deficit numbers with or without any inaccurate assumptions. I think that we no longer can afford to continue the deceitful budget practices of the past that have already weakened our future. More than ever before the United States of America is living on borrowed time and borrowed money, and whether we take this precise approach that I suggest or not, I think this cover-up must stop right now. And I don't mean next year. I think we ought to stop this cover-up in the fiscal year 1991 budget that is being readied right now.

The purpose of the hearing today is to talk about several suggestions, and certainly though I have given a great deal of thought to this and run it by a great many people, I am far more concerned with the process than a particular bill. I believe budget process reform means first of all honesty. I understand that process reform alone will not get us out of the very deep deficit pit we are now in. We will only accomplish this with the proper leadership from the White House combined with Congressional determination to make the difficult choices that will work.

This kind of change can facilitate action by laying the necessary framework for honesty. S. 101 proposes to do just this. That leaves hard decisions, but we must be honest before we are in a position to make those hard decisions. I think if we look at the interest cover-up, and even more frightening, the growth of interest we owe, we can see that we cannot permit this process to go on and on. Interest is becoming the largest item in the budget. This budget would report it as interest paid and not the net figure that allows cover-up.

The Balanced Budget and Debt Reduction Act of 1989, S. 101, or as I call it for short, the Honest Budget Act, has been crafted to require full disclosure of deficit by defining, as any accountant would, deficit as the increase in the public debt—that is the debt subject to the limit. S. 101 will not balance the budget, but it will require us to come clean with the American public as the first needed action to facilitate substantial reductions in the Federal debt.

S. 101 is not a complicated piece of legislation. It is quite simple, but the results could be quite profound. It does not take anything

off budget. It simply divides the unified Federal budget into three accounts. I have called them in the legislation three budgets or sub-budgets but I think a better word is accounts—the retirement account, the operating account, the deficit and debt account. This chart is probably too far to see, but it shows how this works.

Now, after we separate these accounts we can unify the budget and consolidate it in any way we want to, in anyway the economists want to. We are not doing away with the unified budget. We are simply laying the budget out where every single person in America that bothers to look at it can understand what we are doing.

The retirement account. Subject to Committee commentary, I have included some things here that maybe others would not want, and left other things out. But it seemed logical to me to include in the retirement account receipts and expenditures not only for Social Security but for other Federal retirement programs, including transfers from the operating account as employer contributions. Once these funds are paid out from the operating account they are gone, they are no longer available for general use. They ought to be protected in a separate account, it seems to me.

This also includes interest paid by Treasury to those trust funds. The budget process now astoundingly allows Treasury to count the interest payments to these trust funds, paid out—just as much as interest paid out to Citicorp—paid out, but astoundingly, the budget now counts that payment as a receipt. And this is part of the cover-up. Of course, this allows a net interest figure substantially smaller than the bottom line gross interest figure we actually pay.

There is no more logic including Social Security in our deficit calculations than in putting some totally unrelated—say AT&T profits—in there to cover-up the debt. So we get back to a unified budget. We get back to consolidation, but we have taken a stop on the road here to say let's look at what we are putting in there to unify and consolidate.

The operating account includes all receipts and expenditures of Federal entities other than those in the other two accounts. The operating account reflects current receipts, current appropriations. And S. 101 requires that that column, that account, always be balanced. Now, that is our goal, subject to point of order, subject to sequestration, taking up from Gramm-Rudman those very useful fundamental tools, to keep that account always balanced. It so happens that the revenue and the expenditures in the operating account are not very far out of kilter now. It would have to be balanced, and that would be another discipline to keep us from wild spending, if you will.

Finally, the debt and interest account includes changes in public debt and interest paid on the public debt, and defines deficit as simply the increase in the debt subject to the debt limitation.

We need to concern ourselves with reducing real deficit, not some continued deficit. And this is the deficit that we have got to schedule for reduction. This is the stark truth that we have got to face and let the American public face. This is basic honesty, fundamental to the Honest Budget Act. The debt and borrowing for fiscal year 1988, as you can see, comes to \$255 billion, and that is

what the deficit should have been for 1988. The figure we should have used for that year is \$255 billion, not the \$155 billion deficit figure we used.

The debt and interest account also establishes a schedule of deficit and debt reduction targets. Now, this requires substantial reductions. We cannot immediately start with large reductions, but they ultimately have to be substantial if we are going to slow down that growth in debt. This account creates a trust fund for the reduction of public debt—the debt subject to the limit—and provides for enactment of dedicated debt reduction taxes, if called for by the President, enacted by the Congress. Any such new revenue must be solely dedicated to the reduction of deficit and debt through this trust fund, funds that can't be used any way for any other purpose.

Now, that's the plan. When you examine the numbers in each account, it really is a very simple plan of dividing up the pieces of the Federal budget. And when you examine the numbers in each account—the bottom line numbers in each account—our problem becomes clear. Our problem is the interest we are paying to service our mounting debt. The operating account is not that much out of balance now.

Senator DOMENICI. Senator Sanford, might I ask a question?

Senator SANFORD. Yes.

Senator DOMENICI. Under your definition of the operating accounts, you say it is not far out of balance. What is the most significant difference in your approach and what we are now doing when everyone is suggesting that the operating accounts of this Government are way out of balance? What is the difference?

Senator SANFORD. The operating account breaks down into receipts and outlays relevant to that account, operations. In fiscal year 1988 we received \$791 billion in taxes and other receipts and offsetting collections. I won't get into that distinction except to say that OMB keeps it one way and my proposal another way, but the net comes out the same.

That year we spent \$818 billion. That left us with a \$27 billion operating deficit in 1988. Under my bill we would have had to balance that. That's a doable figure. If S. 101 had been the law then, it would have required the real elimination of that \$27 billion. Now obviously Congress can eliminate this in one or two ways, or both of two ways. But that is the difference. It is obviously not a very substantial difference.

Finally we get to the debt and interest account where we can more clearly see our problem. In 1988 we paid \$215 billion in interest. We increased the debt by \$255 billion. And that should have been our deficit. This proposal already assures that we are not going to carry over deficits from operations, so whatever remains to be paid in the debt account is essentially going to be the interest on the debt. The operating account is manageable, in my opinion, and the interest we are paying to service the debt is out of control. If we continue to ignore interest, we are going to be in trouble, and that is why I have spent so much time working on this.

I might point out also that we get constantly—I do—complaints from constituents that say, well, you could balance the budget if you would just cut expenditures. We can certainly cut expenditures

where they ought to be cut. I sometimes ask people, well, what would you cut? And they immediately say entitlements.

Entitlements has somehow become a word meaning giveaways in the view of a great many people. But we can look at this figure, and I break this budget down in entitlements, defense and all other Government. By laying the budget out this way there cannot be a lot of vague controversy about what we can cut. There it is. We can set the priorities, we can cut, we can increase, we can do what the budget process is supposed to do, set the national priorities.

I thank you very much gentlemen. I'll be glad to answer any questions.

Chairman GLENN. Thank you very much, Senator Sanford. We appreciate your very good presentation here. You have done a lot of thinking about this. We will go on a 5 minute rule here this morning since we have several people here.

In two sections of S. 101, your bill, Congress would be required to pass taxes to reduce the debt or the deficit. What is the President's obligation under that situation? The President is supposed to be the chief budgeter for the country. It is law since 1921, and it says that he will make the presentations to us. What would be his obligation?

Senator SANFORD. Well, as both a practical matter and a legal matter, the President has to initiate taxes. The Constitution, of course, leaves the legal initiation to the House. But I don't see anyway that we can increase taxes if the President does not want to go along with it.

We can get along without taxes, it seems to me, as long as we don't fool ourselves about what is happening. I provide in the operations side of the budget, just as Gramm-Rudman really provides, that we can get in balance by one of several ways, by increased revenues or by additional cuts, or by a combination. There is nothing new about that. Those taxes could be proposed by the President or by Congress, as we now sometimes do, or by summit agreement. That is not the difficult part. That would be fairly minor.

I would think we ought to have a more systematic process for doing this and S. 101 provides this. But that would be about what we are doing now. We are on the margin. We are not talking about the big sums or nor the big reductions.

When you get over into the deficit and debt account, I have structured this and included a schedule showing how we could come into a surplus right after the turn of the century and literally start reducing the real debt. But in the meantime if the President does not want to propose taxes and Congress does not want to enact taxes for this limited, dedicated purpose, that is all right, we have capitalized our interest. And that is what any corporation or individual heavy in debt has to ask the bank to do, to capitalize the interest. We have been capitalizing it.

S. 101 capitalizes it in a forthright way. We would pay the interest out of the deficit and debt account, and if we don't have it to pay we borrow it to pay and it continues to climb. If the President chose to do nothing, by 1993 we will have roughly a \$4 billion debt. All right, provided we know that we are doing it and provided the public knows that we are doing it. I wouldn't be nearly as dis-

turbed as I am now that it is going to happen anyhow and nobody will know it.

So surely it has to be the initiative of the President, and that, Mr. Chairman, is why I have attempted to approach this in a bipartisan way. I have not rushed around to get colleagues to sign it and to make it appear a Democratic piece of legislation. I don't see it that way. I see it as one approach to generate additional comment and contributions to the body of it in a bipartisan way. Sometimes you have to rise above partisanship and in dealing with the Federal debt I think we have got to rise above partisanship.

Chairman GLENN. How would you treat other trust funds? You listed trust funds mainly as retirement trust funds. All of our trust funds are not retirement trust funds.

Senator SANFORD. That's right.

Chairman GLENN. We have airport and airways, and we have highway trust funds, we have a lot of things that we can't get anybody to spend money for, we can't use those funds to do what should be done for the infrastructure of the country because it shows an effect on the bottom line.

How do you treat those other trust funds?

Senator SANFORD. I first took them off, in my first proposal. And one of the think tanks with whom I consulted suggested that it was much more logical not to take off anything but the retirement funds, that there is a reason for setting aside retirement funds where they can be separated out. The other trust funds are really just additional operating funds and it would be better to include them over here in the operating account. And if you take my definition of deficit, there will not be the temptation to hold surpluses because they can't be used to offset the deficit. And, of course, we ought to be spending those funds.

We could provide a separate line—and I didn't want to get it too complicated—for other trust funds, and our objective would, in most cases, be to keep them at zero. Whatever comes in ought to be spent, leaving a slight margin.

The trust fund surpluses under S. 101 would not have anything to do with the ultimate deficit.

Chairman GLENN. This is a side issue, but I will be introducing legislation shortly that we passed in the Senate twice before and lost. I haven't suggested it the last couple of years, but in the Budget Act of 1921 that requires the President to submit the budget to us, it just says that where the President submits a budget that is expected to be out of balance, he will suggest appropriate action to take care of that.

The appropriate action is defined down in the fine print in a footnote as being new taxes, borrowing or other. Now, every President going back time immemorial since 1921, whoever it is, that was going to run a deficit, has always just said,

We'll, up the national debt so I can borrow more. That takes care of my requirement under the law.

What my legislation would do, which we passed overwhelmingly in the Senate, and passed a second time on UC, unanimous consent, as a matter of fact, would just say the President cannot use that borrowing as the only way of complying with the laws.

In other words, the President is the one that has all the budgeters all over the Government, thousands of people to help him set up the budget for the country. He is the one charged with that under the law. This would say that where it is going to be out of balance he still could borrow, suggest that to us, but he would also suggest what programs do you want cut? Are we going to have new taxes? What others things are we going to have to do? And he is the leading budgeter for the country.

I know my time is up here, but I am going to be submitting that, and that doesn't conflict with yours.

Senator SANFORD. No, no. Not only on that, I am familiar with it and I am a co-sponsor of it and it would fit very nicely with this legislation if this were enacted.

Senator DOMENICI. Senator, first I will acknowledge to you that I have not had enough time to study this proposal. An awful lot of time and thinking has been spent on it. But let me just ask, let's just take the accounts, Social Security and Medicare and follow them through your approach.

Where does the Social Security Trust Fund appear, and where do the taxes coming in for the Social Security fund appear? Are they all in the retirement account?

Senator SANFORD. All in the retirement account. We start at the top with the receipts, the contributions and taxes to those various accounts. They are all over there, and then next to that are the payouts and next to that are the balances.

Now, Medicare is a subject that we could talk about and maybe put either place. It seemed to me because of its close relationship with the Social Security and the tax income, that it probably would be better to have it over there, but it obviously is one of those decisions where we could put it either place we decided to put it.

Senator DOMENICI. And the accumulating surplus for Social Security shows up only in that retirement account and not in the deficit and debt account?

Senator SANFORD. Absolutely.

Senator DOMENICI. So that theoretically the year 2012, 2014 comes about, that right-hand column could have a surplus of \$7.5 trillion?

Senator SANFORD. Yes.

Senator DOMENICI. And over on that right-hand column we could still be in debt?

Senator SANFORD. \$7.5 trillion.

Senator DOMENICI. Or we could be in surplus?

Senator SANFORD. Exactly.

Senator DOMENICI. Now, that is a way of disclosing and putting the budget into a new form that is perhaps more understandable, maybe more relevant, maybe highlights the national debt and the additions to it under your deficit and debt column more precisely.

But with reference to deficit reduction and your approach, you would mandate that the operating budget be in balance each year and presumably have a mechanism for doing that. Is that correct?

Senator SANFORD. Exactly.

Senator DOMENICI. What is your mandate with reference to the right-hand column, the accumulated deficit and debt?

Senator SANFORD. Section 402 sets up a schedule. It starts reducing it, gradually working on the debt plus interest, gradually for about 5 years so that we don't do anything too drastic in shifting of general funds and public funds. And by about the 5th year out we begin to make substantial reductions, we have reached the interest level, and we are beginning to dig into the debt, itself, and it carries it to about the turn of the century when we will be having a surplus in terms of this annual deficit, meaning we will begin real reduction of the debt.

And then, it depends, of course, on how much we are willing to apply to debt reduction. But S. 101 sets up the machinery, sets up the schedule, sets up the suggestion, sets up the invitation, to let's have this as a firm requirement if the President and the Congress will agree on a dedicated tax to carry it out. It cannot be fully carried out any other way.

Senator DOMENICI. Let me see—this is my last question—if I understand. If the operating deficit were in balance under your proposal next year, and the retirement accounts are as you state them, and—is it fair to assume that they are all in surplus next year?

Senator SANFORD. Yes.

Senator DOMENICI. Okay. That is what I thought. Then would be it be fair to say that the only thing that ought to be showing up in that deficit and debt account is the accumulated deficit to that point in history and the interest needed to be pay for it?

Senator SANFORD. Exactly.

Senator DOMENICI. And where would the interest show up?

Senator SANFORD. It would show up in that debt column.

Senator DOMENICI. All right. So we would not be expected as part of the operations of Government to pay the interest, it would be in balance without the interest each year?

Senator SANFORD. Yes. We cannot pay it without borrowing, so we might as well get it over there where we might be able to pay it.

Senator DOMENICI. So that if we were to continue for a number of years with the operating budget in balance, essentially we would have two things, the status quo with reference to deficit and interest, and we would have, hopefully, an accumulation of assets in the right-hand column by way of the trust funds.

Is that a fair assessment of where we would be?

Senator SANFORD. Yes, exactly.

Senator DOMENICI. Are any of the operational expenditures, to your knowledge—and I am not trying to nit pick here, if you don't know it doesn't matter—are any of the operation expenditures such that money will move from the operations column to the retirement column?

Senator SANFORD. Yes. Any employer contributions made to retirement funds have to be put somewhere. They are now put in the trust to the extent they are.

Senator DOMENICI. But are any general tax dollars, or general tax dollars, corporate, personal or otherwise, do any of those flow from the operations column to the retirement column?

Senator SANFORD. No—with the possible exception of parts of Medicare—other than the employer contribution obligations.

Senator DOMENICI. That's a pretty big ticket item though, isn't it?

Senator SANFORD. No question about it, and that is one thing that I think we simply have to make a judgment—whether it would be easier to handle it in the retirement column or the operating column. It can be handled either way.

Because you do have some unrelated special taxes, it seemed to be better to use the transfers and operate it all in the left column. But I could be talked out of that. I could make a good case to leave it in the operating column. It is a decision that has to be made. In either case, we would probably have it pretty well under control.

I came down on the side of putting it in the retirement column because I thought that it was more akin to that.

Let me add one other thing, if you don't mind, Mr. Chairman, because I know Senator Domenici has been interested in this. I provide in this bill a provision that the General Accounting Office will immediately study and make recommendations about of how we ought to handle the accumulating funds under the retirement account.

Senator DOMENICI. I read that.

Chairman GLENN. Good. Senator Robb.

Senator ROBB. Mr. Chairman, I will be very brief. I am a cosponsor of Senator Sanford's legislation. If I am not a cosponsor of yours, I would like to be.

Chairman GLENN. Good.

Senator ROBB. I share the frustration that Senator Sanford has discussed this morning. I had occasion earlier today to be talking about the budget again and my temples started to bulge. Our inability to deal with it is one of things that I still cannot understand since coming to Washington, and I will have more to say about it later. But I appreciate your leadership in this area and I am delighted to be on both bills. Thank you.

Chairman GLENN. Thank you very much. Senator Roth?

Senator ROTH. Thank you, Mr. Chairman.

I congratulate Senator Sanford for his initiative. I certainly share his desire to have truth in budgeting.

As I read your proposal, it seems to me that revenue raising does play a key role in trying to address the problem of the deficit. As I understand your proposal, in the case of the operating budget, you would have a special resolution directing the tax writing committees to report legislation to increase revenues in the event of an OMB sequester order.

This resolution, similar to a budget resolution, would instruct the tax writing Committee to raise revenues 50 percent of the deficit in excess above the Gramm-Rudman. And again, I think it is in the debt, you would similarly recommend to establish a debt retirement tax dedicated to the reduction of the public debt, or earmark an existing tax for the purpose.

So that you do see revenue raising as a very critical part of this program?

Senator SANFORD. Well, not necessarily. I sent this over to OMB and they really didn't examine it and sent it back with about a third echelon person writing the letter, saying, we don't want any part of this, it is a tax bill.

Well, of course it is not a tax bill, it is an honest budget bill. The provisions about taxes and operating budget are what we do now. I simply wanted to put it in a more orderly form. We now say we will cut spending or increase revenues.

It seemed to me if we cannot balance by cuts alone, which, of course, is the first choice, then we would do as we do now. We cut it a little more or we add a little revenue. That is what we are doing now. My proposal formulizes the present procedure. This is not a new tax proposal.

Senator ROTH. Let me ask you a question there. You have sequestration, and then it says that a resolution—and maybe I am incorrect—but my understanding is a special resolution would be enacted, not signed by the President, directing the tax writing Committees to report legislation to increase revenue. And that this resolution would instruct the tax writing Committees to raise revenues to meet 50 percent of the deficit excess; is that correct or not?

Senator SANFORD. Well, yes. But that means if you fail to get your budget in balance, as I heard a great speech yesterday, if you are going to do it you ought to pay for it. And that is what this says. If we are going to have a deficit we ought to be willing to pay for it.

Now, that doesn't mean we must pay for it in that way. It doesn't mean we cannot cut, but we do it now and this simply puts it in a different form to do it.

Senator ROTH. But you are writing into law, if this were enacted, a procedure that would require 50 percent if the others failed?

Senator SANFORD. That is subject to some adjustment. The staff and I thought that was the best way to express what is going on now, but to put some parameters on it. It is not, I assure you, intended to be anything new except in that that it is more orderly.

Senator ROTH. You have another section that would require GAO to study whether the Social Security Trust Fund should be invested in interest bearing loans, program for education, economic development, housing, highway, others. This goes to the proposal now of setting Social Security trust funds aside.

Do you have any concern, either under your proposal or what may come up before the Senate soon, that isolating the Social Security Trust Fund could in a way result in more spending? In other words, it might particularly invite—if you have it set off somewhere alone—increased spending for senior citizens because it appears to be in surplus?

Senator SANFORD. Well, that is so now. I have heard this argument and it ought not to be dismissed. But Congress would have to do that. Besides, I don't really take it off budget. I don't treat it as something out in left field. I simply put it in a different account.

But the fact that we are using Social Security suppluses to covering up the deficit, keeps us from appropriating it for the wrong reason. I think we would have enough discipline to understand that this is an actuarially prepared plan and is actuarially sound. I would be extremely reluctant to start increasing benefits.

Senator ROTH. Well, I think there are many that are concerned that that would be the consequence.

Senator SANFORD. Well, I think we could handle that in a number of ways, but Congress ultimately has that power. I simply

think there would be a great resistance, because when you increase benefits you are certainly decreasing the potential for people in the out years and they are going to be heard from too. I would think it would take a rather drastic situation.

Senator ROTH. Let me just—and I am not trying to nit pick either, I think you have been very helpful in your proposal—but let's say you include Medicare as you propose, and you have got this \$7 billion asset, or surplus.

But the concern is, let's say you put Medicare in that, won't that invite, for example, one of the things that the senior citizens are very interested, nursing care. There is no question that there is a serious problem there. But wouldn't that be a handy device? You know, you have got a multi-billion dollar surplus—

Senator SANFORD. Oh, no. Let me make a point. I do not propose to mingle these various trust funds. They stand alone now and would continue to do so. We don't take Social Security funds now and use them for something else, and I don't suggest mingling any retirement funds. I merely separate them where we can see them, watch them and identify them. We don't mingle them now and I would never suggest that we should.

Senator ROTH. Well, my concern is—

Senator SANFORD. That is a good concern, but we thought about that and certainly they are just as protected as they would be if we didn't separate them from the operating and debt accounts.

Senator ROTH. My time is up. Thank you, Mr. Chairman.

Chairman GLENN. Senator Conrad, any questions?

Senator CONRAD. No.

Chairman GLENN. Senator Nunn?

Senator NUNN. No.

Senator DOMENICI. I have one, Mr. Chairman.

Chairman GLENN. Fine. Senator Domenici.

Senator DOMENICI. Senator, let me postulate something for you and ask you if you agree, and how this may help.

You know, there is what I choose to call—and you can disavow it if you would like—but there is a myth around that we have dramatically cut taxes in the last 8 or 10 years. It's been 14 months since I have looked at the numbers, so if they are wrong, I am about 14 months wrong.

My numbers would indicate that we haven't cut taxes at all, because when we decided to make the Social Security Trust Fund solvent we imposed a tax. Some call it a very regressive tax, but it is very big. For well over half, maybe as many as 70 percent of the working men and women of the country, they pay as much in payroll tax as they do in the general income tax.

And so what we did was we had the Social Security tax go up steeply and we had the other tax come down some, but if you treat taxes as taxes, taxes have not come down but rather have gone up slightly, even under the projection of what they would have been had we not changed the Social Security tax.

Now, it bothers me that we would have any kind of budgeting that would not quickly reflect the total tax on the American people, and that is one thing that the unified budget does.

Senator SANFORD. Right down there. Well, don't let me interrupt you.

Senator DOMENICI. Well, you would agree, would you not?

Senator SANFORD. There is no question, but, of course, our problem is that we increased dedicated taxes. And I make no judgment on what we did or didn't do to the general taxes. There is a chart in the budget documents that goes back to 1980 and takes every tax change and carries forward through the years the plus or minus as a result of that. That would indicate that we have reduced general taxes while increasing dedicated taxes, and that leaves us, as it should, with a surplus for the future in Social Security, but it leaves us without anything to handle this debt reduction and in fact to keep out of debt. That is what somehow we have got to find an adjustment for.

But I quite agree with you, overall we probably have increased taxes. Obviously, we need to know how much money flows in this way, how much money is saved in terms of this. We need a unified budget accounting, but we should not have it for the purposes of covering up. We can have an honest presentation, that ties it together anyway that suits our needs.

Senator DOMENICI. Thank you.

Chairman GLENN. Thank you very much, Senator Sanford. You have given us a lot to think about here and we will be back to you with some additional questions, undoubtedly, we hope you would answer for the record also.

Senator SANFORD. May I put in one other statement, that I am available to talk to any member of the Committee, and my staff is available to talk to staff or any Committee member.

Chairman GLENN. Good. We appreciate that. We will let that be known. Thank you very much.

Senator DOMENICI. Mr. Chairman, while Senator Conrad takes his chair I wonder if I might just make a request. Senator Boschwitz was not able to attend and has a statement with reference to his proposal. I wonder if it may be made a part of the record?

Chairman GLENN. Without objection it is so ordered.

[The opening statement of Senator Boschwitz follows:]

OPENING STATEMENT OF SENATOR BOSCHWITZ

Mr. Chairman, I am pleased to have the opportunity to address this joint hearing of the Senate Budget Committee and Senate Governmental Affairs Committee on Reforming the Budget Process.

It is clear that the budget process is in need of serious reform. This need for reform has never been more apparent than two weeks ago when we adopted the budget reconciliation bill in order to meet the Gramm-Rudman targets. Late that Friday night, as I was peering over the final draft of the bill (written only hours before passage), I noticed a tremendous number of gimmicks and accounting tricks used to raise enough revenues and savings to meet the deficit reduction targets.

This should not have surprised anyone; Congress has always handled the budget process in a manner that defies common sense. One of the biggest gimmicks that Congress has used is the current services budget baseline that assumes automatic spending growth in all programs. This means that Congress may assume that the services offered by a \$100 million program in 1989 will cost 120 or 130 million dollars in 1990, a significant increase before the budget process even begins.

That way, if Congress ends up spending \$110 million, we can pat ourselves on the back for a 10- or 20-million dollar savings while real spending increases \$10 million. The truth is we've let Federal spending increase while deceiving the American people into believing that we're reducing the national debt.

This becomes obvious when you look at the results over a period of years. According to the baseline for the 1986 fiscal budget, for instance, Congress reduced the deficit by a total of \$239 billion over the previous five years. While we were cutting

spending so aggressively, however, Federal spending increased by two-thirds and the deficit almost tripled.

Before I entered the Senate, I did not know anyone or any group that had prepared a budget in such a confused manner. Even now, after I have been here for over ten years, I still do not know anyone, except the Congress, who considers a \$10 million spending increase a cut. Try to explain to the American people why they should have to learn a new language, where words like "cuts" and "increase" have a completely different meaning than in any other context. It's time Congress started using the American people's language.

When the Senate considers extending the debt ceiling, I intend to offer an amendment that would make the Government do just that. My amendment would require the President and Congress to draft a budget that clearly demonstrates the growth of spending from one year to the next by comparing current year spending with estimated spending for the next fiscal year, both in actual and percentage terms for each budget function and subfunction.

In addition, it would require the Congressional Budget Office to describe the factors which are causing the growth of entitlement programs, including inflation, the growth in the number of people receiving benefits and the phasing in of new benefits.

It is my hope that by requiring the President and Congress to provide this information, we can discourage the Government from assuming that automatic spending increases are inevitable. It's time to stop misrepresenting the budget to the American people. They deserve better. I urge my colleagues to support this measure when I offer it on the floor and I thank the two chairmen for conducting this hearing on the budget process.

Senator DOMENICI. And Mr. Chairman, Senator Johnston and I introduced the Budget Reform Act of 1989. I have not chosen to testify on it, but I would ask if that Domenici-Johnston Budget Reform Act of 1989 might be included in the record.¹

Chairman GLENN. Without objection it is so ordered.

Senator DOMENICI. Could we put a statement in in the next week doing a little explaining?²

Chairman GLENN. Without objection it is so ordered.
Kent, welcome.

TESTIMONY OF HON. KENT CONRAD, U.S. SENATOR FROM THE STATE OF NORTH DAKOTA³

Senator CONRAD. It is good to be here, Mr. Chairman. Thank you for your patience.

Chairman GLENN. It's been a long time through two full mornings to get to this point. We apologize it has taken so long.

Senator CONRAD. Well, that is no problem. I am glad to have the opportunity to talk about a subject that I feel strongly about, as do, I know, the members of this Committee.

I want to say that I have been working with Senator Sanford and I have enormous respect for the proposal that he has come up with. I think he has been engaged in a several-year process to try to achieve a more honest presentation of our budget and to try to get at the underlying problem that frustrates all of us so much.

We have an understanding of a need for deficit reduction. I think that need for action is abundantly clear. I have said repeatedly that I believe we have engaged in a policy of debt, deficit and decline over the last decade. I find the evidence overwhelming. We have tripled the national debt, multiplied the trade deficit four fold, gone from being the largest creditor nation in the world to the

¹ See p. 93.

² See p. 137.

³ See p. 188 for Senator Conrad's prepared statement.

largest debtor nation. And our national savings rate has declined and continues to be lower than our economic competitors.

This is not a policy that can be sustained. When one examines how we have been able to reduce the unified budget deficit, it is very clear that we have relied on the growth in the Social Security Trust Fund surpluses. Mr. Chairman and members of the Committee, I draw your attention to the chart that I have entitled "Raiding the Social Security Trust Fund." It shows, according to CBO's analysis, the trend in the unified budget deficit, which is in decline. We can see there very clearly that the unified budget deficit by the year 2000 will have been substantially reduced.

The problem is the way we have done it. We have done it by using the trust fund surpluses. I thought this morning as I was coming in that we have really taken a page out of Jim Bakker's hymn book. Jim Bakker was raising money for one purpose, using for another purpose, and a court has just declared that to be fraud, sent him to jail for a term of 45 years.

Well, before Jim Bakker ever invented that scheme, we had come up with it here in Washington, and our scheme is the same. We are raising the money for one purpose, we are using it for another purpose, and that fundamentally is not honest. It does constitute fraud. And I believe it is clear we must do something to get the country headed in a correct fiscal direction.

We have been operating with Gramm-Rudman for several years and with each year we find more ways around it. I appear today, Mr. Chairman, to introduce two proposals to help us regain a focus on the central problem. The first proposal we called the "Look Back" proposal. And, Mr. Chairman, I might indicate that both of these proposals came out of the work of the Deficit Reduction Caucus, some 26 members almost equally divided between Republicans and Democrats.

We have been meeting without publicity for 2 years. Every 2 weeks we meet for a hour and a half, sometimes more, calling in experts from all over the country to talk about how we can get a handle on the deficit problem facing this country. And we have dealt with the trust funds question, all the functional areas of the budget. Senator Sanford has been a very active participant in that caucus, as has Senator Robb. Senator Packwood has been very faithful. I think he has attended every one of the meetings. Senator Bond, as well, and many others. So I want to say clearly that this is a result of the work of the Deficit Reduction Caucus.

It is a bill that would amend Gramm-Rudman to close one of the loopholes that Congress and the Administration has taken full advantage of recently. Namely, increasing funding in the current fiscal year because it does not cost anything. We have down it through payroll shifts, we just did it with the savings and loan bailout, we will do it at the next opportunity unless there is a tangible consequence for our action.

Mr. Chairman, the Gramm-Rudman law, as structured keeps Congress and the Administration focused on the upcoming fiscal year. We attempt to meet one target at a time. We will do almost anything to satisfy that target at the expense of making lasting policy choices. We continue to invent new accounting gimmicks. Once OMB decides that we have satisfied the requirement and will

meet the deficit target for the next fiscal year, Congress and the Administration then proceed to shift costs into that fiscal year because it does not count against Gramm-Rudman, we have already met the target.

Well, no matter how we attempt to fool ourselves or the American public, it does count. In my opinion the only way we are going to get around this problem and tackle the budget deficit and get it behind us is to make policy choices that are lasting. We get further behind when we choose to make one time shifts in payments.

This bill would reduce the incentive to shift funding into the current year by providing a real consequence, a real world consequence for that action. If legislation is enacted during the fiscal year that increased the deficit and did not provide an offset, that action would run the risk of causing a sequester.

For example, this August OMB determined that the deficit for fiscal 1990 would be \$126 billion. That way we operate now, once Congress passes the legislation necessary to get back to that target the work of meeting Gramm-Rudman is completed. This year, for example, the budget reconciliation bill will bring us back to the necessary range. Under my proposal, however, if future legislative action pushed the deficit over the target by more than the \$10 billion cushion, a sequestration would be required to bring the deficit back down to the cushion level—a real world consequence for our action.

This bill, Mr. Chairman, would not add another sequestration date. All the changes tie into our current budget timetable. It wouldn't extend the time we have for budget deliberation. Also, under this bill Congress would be required to use CBO economic and technical assumptions. I believe that would go a long way to bring us some honesty to our work.

I have consulted with CBO extensively in drafting this bill and have incorporated its suggestions. This year, for example, all action would be scored according to the same forecast throughout the year. All changes to the budget for fiscal 1990 would be scored on the forecast that OMB used in August when it determined the deficit level for fiscal 1990. Congress would be working under the same set of rules the entire time. There would be no shifting ground to deter us or to hide behind.

Mr. Chairman, my second proposal also flows out of the work of the Deficit Reduction Caucus, and it provides for taking Social Security out of the deficit calculation. It would do so by continuing the Gramm-Rudman targets through fiscal 1993 and then would remove Social Security at that point for fiscal 1994.

Under this proposal Congress would be bound by the targets for deficit reduction that are currently in place through 1993. Once the unified budget deficit is brought into balance we would begin an effort to maintain a balance in the operating budget. In 1994 the Social Security surpluses, as you know, are estimated to be some \$113 billion. I believe that maintaining a balance in the operating budget without counting the Social Security Trust Fund will help to foster improvements in the national savings rate.

Mr. Chairman, according to CBO, the decline in the American savings rate stems about equally from declines in the private savings rate and from increases in the Federal budget deficit. The rate

of savings is low, both by historical and international standards. The chart I have displayed now, Mr. Chairman and members of the Committee, shows the savings rate in Japan, West Germany and the United States. And as you can see, ours is distinctly in third place. And we all know that savings are the basis for the investment pool that is needed to build real wealth for this country.

And I would submit to this Committee that is critical that we find a way to increase the savings rate in this country. One way to do so is to set aside the Social Security Trust Fund. Again, we would start that process in fiscal 1994, allowing us to get down to a balance on a unified budget basis by 1993, as per the current Gramm-Rudman targets. We do that because, frankly, we don't want to create any more confusion. We stick with the Gramm-Rudman targets.

We are about to face a very substantial problem in meeting those targets next year. We don't want to do anything to distract from meeting that goal. So we have not changed the targets. We go to zero on the unified basis in 1993 and then take out Social Security, starting in 1994, for the express purpose of adding to the societal savings pool that are necessary to make the investments to assure that the United States experiences economic growth in the future.

I offer these proposals, Mr. Chairman, as constructive modifications on the budget process, not as a panacea. We have had too much overpromising here in Washington. As the former CBO director, Rudy Penner, once said, "The process isn't the problem, the problem is the problem."

And the problem that we have faced and have not yet concurred is the problem of not summoning the will to do what we all know needs to be done. These process changes will not solve the problem. It will only be solved, I believe, by presidential leadership and by a willingness on the part of Congress to make the tough choices.

Absent presidential leadership and absent our willingness to make those hard choices, no process reform is going to work, because the mind of man is substantially able to find ways, creative ways, around any process reform we can devise. So, Mr. Chairman, I offer these proposals as ones that the Deficit Reduction Caucus has worked on for several months. There are other proposals—Senator Kohl's, Senator Sanford's—that have great merit, and I would hope that we take ourselves out of the Jim Bakker mentality and recognize that it is time for us to be honest with ourselves and honest with the American people. No more raising money for one purpose and using it for another. That is fraud.

Mr. Chairman, members the Committee, I would be happy to answer any questions.

Chairman GLENN. Good. Thank you very much.

It is very interesting, and I look with favor on what you are trying to do. I think this shifting from one year to another has been one of our worst gimmicks that we have had in this whole process, and we can correct it.

I wonder if that is enough really to save Gramm-Rudman-Hollings. I have not been a big booster of the Gramm-Rudman-Hollings process. I think it has done some good, but I was one of those that took considerable flak for voting against it back when it was first

proposed, and have watched it very closely through the years with great interest.

I thought at the time, and I still believe, that any time we hold a gun to our head and in effect say, if we go over a certain thing, we are going to say no matter what the value of the programs are, they will all take the same cut, whether it is airline maintenance, oversight inspection, or control on airways. Whatever it is, we are going to say we will shoot ourselves in the foot, we are going to hit everybody the same, we will not make judgment values; it will be a straight percent across the board.

I still find that a hard thing to accept, even though I say again that I think some of the things Gramm-Rudman-Hollings has done has helped us somewhat.

Would we be better off just chucking the whole thing Gramm-Rudman-Hollings thing and starting fresh with a new proposal?

Senator CONRAD. Well, I am glad and you asked that question because I too have not been a supporter of Gramm-Rudman-Hollings. It was instituted here before I came to Congress, but as the Chairman perhaps knows, I have found that it has been in many of the years in which I have served here, frankly, a convenient way for us to hide. We have said, well, we have got a process, Gramm-Rudman, that is leading us to a balanced budget and so we don't need to make the hard choices in any one year.

The fact is this year the deficit is going to be about \$155 billion. Last year it was about \$155 billion. The year before it was about \$150 billion. Now, as a percentage of GNP it is coming down, and that is what is critical in economic terms. We all understand that. But the fact is we have not made the progress that was promised under Gramm-Rudman.

Let me, after having said that, say to the Chairman and members of Committee, I think this would be absolutely the wrong time to get out off the path, because next year we have got it constructed in a way that the targets will really require some action by all of us. In other words, CBO says the baseline for next year is we are looking at about \$140 billion, the target is \$64 billion. So we are really going to have to make some choices next year.

Phony economics alone won't do the job. We are actually going to be compelled to make some tough choices, and I would hope that we not throw it out at this critical juncture. I think we may be on the verge of having it do some good.

Chairman GLENN. I would tend to agree with that. I think what little faith there is left in our ability to handle budgeting matters, might go down the tube completely if we tossed Gramm-Rudman out right now. So it may not be the right time, although I think if we were starting over again we could do a lot better than we did for that.

Senator Sanford?

Senator SANFORD. Well, I suppose we could sit here and exchange constructive conversation, but we do have a caucus to attend. I have watched with great interest and great admiration Senator Conrad's absolute dedication to the reduction of the deficit since he's been here. He initiated a caucus. He pushed us to come when obviously other schedules get in the way. He made it a totally bipartisan effort, and certainly he has just been pounding away at

this business of getting the fiscal house of the United States in better order. And I would not want to let this hearing pass without adding my appreciation and commendation for all of that.

I certainly identified with his first proposal and it would not be incompatible with anything I have. We have a difference of opinion, I suppose. I think Social Security has been counted long enough. I wouldn't count it another day. But just so we sometimes quit counting, it would be all right.

Thank you, Mr. Chairman, and thank you, Senator Conrad.

Senator CONRAD. Thank you, Senator Sanford. I appreciate your remarks and I would just say that my own sense is that we are so close here to making some real progress that I would be willing to let the process run 2 more years so that we actually have a chance to get to zero on the unified deficit and then start the process on Social Security accumulation, because I don't think we are going to make more deficit reduction than are included in the targets that are currently in place. That is not to say that I am fully satisfied with this approach. It is an approach on the margins. It does not do what I would like to do in a perfect world.

Chairman GLENN. We are going to end the hearing now, but let me just say that I think there is hope out there on the horizon for meaningful budget reform. We have had 9 or 10 Senators testify with a number of different proposals, most of which are very good and very thoughtful. Given the difficulty with the budgeting process we have had here, that is a promising development. I think that is the first step toward getting something done that maybe can really help us get out of this mess that we are in with the whole budget.

So I am very complimentary to everybody that has testified, both of you here this morning, as well as the others that were here. We do have other things that we have to go to now. I know we are all late to our next meeting.

So the hearing will stand in recess subject to the call of the chair. Well, this was a Joint Hearing so it won't be just one Chair. It was the Budget Committee and the Governmental Affairs Committee. Whether we have any additional joint meetings or not will come only after I talk to Chairman Sasser about how he wishes to follow on with this, and then we will announce what we are going to do.

Thank you all very much for attending.

[Whereupon, at 12:15 p.m., the hearing was adjourned subject to the call of the Chair.]

APPENDIX

II

101ST CONGRESS
1ST SESSION

S. 101

To mandate a balanced budget, to provide for the reduction of the national debt, to protect retirement funds, to require honest budgetary accounting, and for other purposes.

IN THE SENATE OF THE UNITED STATES

JANUARY 25 (legislative day, JANUARY 3), 1989

Mr. SANFORD introduced the following bill; which was read twice and referred jointly pursuant to the order of August 4, 1977, to the Committees on the Budget and Governmental Affairs with instructions that if one committee reports, the other committee has thirty days of continuous session to report or be discharged

A BILL

To mandate a balanced budget, to provide for the reduction of the national debt, to protect retirement funds, to require honest budgetary accounting, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 SECTION 1. SHORT TITLE.

4 This Act may be cited as the "Balanced Budget and
5 Debt Reduction Act of 1989".

1 TITLE I—OPERATING BUDGET, RETIREMENT
2 FUNDS BUDGET, AND DEBT AND INTEREST
3 BUDGET

4 SEC. 101. OPERATING BUDGET, RETIREMENT FUNDS BUDGET,
5 AND DEBT AND INTEREST BUDGET IN THE
6 PRESIDENT'S BUDGET.

7 (a) UNIFIED BUDGET.—Chapter 11 of title 31, United
8 States Code, is amended by inserting after section 1105 the
9 following new section:

10 "§ 1105a. Operating budget, retirement funds budget, and
11 debt and interest budget

12 "(a) The budget of the United States Government sub-
13 mitted by the President under section 1105 of this title shall
14 be a unified budget composed of—

15 "(1) an operating budget;

16 "(2) a retirement funds budget; and

17 "(3) a debt and interest budget.

18 The President's budget submission shall present these three
19 budgets separately.

20 "(b) For the purposes of this section—

21 "(1) the unified budget shall include all receipts
22 and expenditures for Federal funds and trust funds con-
23 solidated to display totals for the Federal Government
24 as a whole;

1 “(2) the operating budget shall include all receipts
2 and expenditures of all Federal entities, other than
3 those in the retirement funds budget and the debt and
4 interest budget;

5 “(3) the retirement funds budget shall include
6 receipts and expenditures for—

7 “(A) the Federal Old-Age and Survivors
8 Insurance Trust Fund;

9 “(B) the Federal Hospital Insurance Trust
10 Fund;

11 “(C) the Civil Service Retirement and Dis-
12 ability Fund;

13 “(D) the Military Retirement Fund;

14 “(E) the Federal Supplementary Medical
15 Insurance Trust Fund;

16 “(F) the Federal Disability Insurance Trust
17 Fund;

18 “(G) the Railroad Retirement Fund; and

19 “(H) such other funds or accounts that the
20 Director of Management and Budget (in coopera-
21 tion with the Comptroller General, the Director of
22 the Congressional Budget Office, and the Chair-
23 men and the Ranking Minority Members of the
24 Committees on the Budget of the Senate and the
25 House of Representatives) determines should be

1 classified as retirement trust funds in order to ful-
2 fill the purposes of this section; and

3 “(4) the debt and interest budget shall include
4 receipts and expenditures for—

5 “(A) reductions or increases in the public
6 debt;

7 “(B) interest on the public debt; and

8 “(C) in times of declared war or declared re-
9 cession pursuant to section 254 of the Balanced
10 Budget and Emergency Deficit Control Act of
11 1985, inter-fund transfers to the operating
12 budget.”.

13 (b) AMENDMENT TO THE CHAPTER ANALYSIS.—The
14 chapter analysis for chapter 11 of title 31, United States
15 Code, is amended by adding after the item for section 1105
16 the following:

 “1105a. Operating budget, retirement funds budget, and debt and interest budget.”.

17 SEC. 102. REPORTING OF TRANSFERS AMONG BUDGETS.

18 Section 1105(a) of title 31, United States Code, is
19 amended by inserting at the end thereof:

20 “(26) inter-fund transfers between the operating
21 budget and the debt and interest budget.”.

1 SEC. 103. OPERATING BUDGET, RETIREMENT FUNDS BUDGET,
2 AND DEBT AND INTEREST BUDGET IN THE CON-
3 GRESSIONAL BUDGET.

4 Section 301(a) of the Congressional Budget Act of 1974
5 is amended by inserting after "ensuing fiscal years," the fol-
6 lowing: "for the operating budget, the retirement funds
7 budget, and the debt and interest budget (as defined in 31
8 U.S.C. section 1105a), respectively,".

9 SEC. 104. CONFORMING CHANGE.

10 Section 710(a) of the Social Security Act is amended by
11 inserting "operating" after "the totals of the".

12 TITLE II—BALANCED OPERATING BUDGETS

13 SEC. 201. POINT OF ORDER AGAINST UNBALANCED OPERAT-
14 ING BUDGETS.

15 Section 301(i) of the Congressional Budget Act of 1974
16 is amended by striking paragraph (2) and inserting in lieu
17 thereof:

18 "(2)(A) Except as provided in paragraph (3), it
19 shall not be in order in either the House of Represent-
20 atives or the Senate to consider any concurrent resolu-
21 tion on the budget for a fiscal year under this section,
22 or to consider any amendment to such a concurrent
23 resolution, or to consider a conference report on such a
24 concurrent resolution, if the level of operating budget
25 outlays for such fiscal year that is set forth in such
26 concurrent resolution or conference report exceeds the

1 recommended level of operating revenues set forth for
2 that year, or if the adoption of such amendment would
3 result in a level of operating budget outlays for that
4 fiscal year that exceeds the recommended level of oper-
5 ating revenues for that fiscal year.

6 “(B) In the House of Representatives the point of
7 order established under subparagraph (A) with respect
8 to the consideration of a conference report or with re-
9 spect to the consideration of a motion to concur, with
10 or without an amendment or amendments, in a Senate
11 amendment, the stage of disagreement having been
12 reached, may be waived only by a vote of three-fifths
13 of the Members present and voting, a quorum being
14 present.

15 “(3) This subsection shall not apply if a declara-
16 tion of war by the Congress is in effect.

17 “(j) BUDGET LEVELS DETERMINED BY THE BUDGET
18 COMMITTEE.—For the purposes of this section, the levels of
19 new budget authority, spending authority as described in sec-
20 tion 401(c)(2), outlays, and new credit authority for a fiscal
21 year shall be determined on the basis of estimates made by
22 the Committee on the Budget of the House of Representa-
23 tives or the Senate, as the case may be.”.

1 SEC. 202. POINT OF ORDER AGAINST LEGISLATION THAT
2 WOULD CAUSE AN OPERATING DEFICIT.

3 Section 311(a) of the Congressional Budget Act of 1974
4 is amended—

5 (1) in the matter after paragraph (3) by inserting
6 before “or, in the Senate” the following: “or would
7 cause operating budget outlays to exceed operating
8 budget revenues”; and

9 (2) in the matter following subparagraph (B) by
10 striking “paragraph (2) of such section” and inserting
11 “paragraph (3) of such section”.

12 SEC. 203. PROHIBITION OF COUNTING AS SAVINGS THE
13 TRANSFER OF GOVERNMENT ACTIONS FROM
14 ONE YEAR TO ANOTHER.

15 (a) ELIMINATING EXCEPTIONS.—Section 202 of the
16 Balanced Budget and Emergency Deficit Control Reaffirma-
17 tion Act of 1987 is amended by—

18 (1) striking “(a) IN GENERAL.—Except as other-
19 wise provided in this section, any” and inserting
20 “Any”;

21 (2) striking “altering” and inserting “reducing”;
22 and

23 (3) striking subsection (b).

24 (b) CONFORMING AMENDMENT.—Section 251(a)(6)(K)
25 of the Balanced Budget and Emergency Deficit Control Act

1 of 1985 is amended by striking "except to the extent provid-
2 ed in such section".

3 **SEC. 204. PRESIDENT'S OPERATING BUDGET MUST BE BAL-**
4 **ANCED.**

5 Section 1105(f) of title 31, United States Code, is
6 amended—

7 (1) in paragraph (1), by inserting before the period
8 "using a budget baseline estimate made in accordance
9 with section 251(a)(6) of the Balanced Budget and
10 Emergency Deficit Control Act of 1985";

11 (2) in paragraph (2), by inserting before the
12 comma "using a budget baseline estimate made in ac-
13 cordance with section 251(a)(6) of the Balanced Budget
14 and Emergency Deficit Control Act of 1985";

15 (3) by striking paragraph (3) and inserting in lieu
16 thereof the following:

17 "(3) In the operating budget in the budget so transmit-
18 ted for any fiscal year, revenues shall equal outlays, with
19 revenues and outlays at such levels as the President may
20 consider most desirable and feasible. To the extent that gross
21 revenues exceed gross outlays, the President shall indicate
22 such surplus as an inter-fund transfer to the debt and interest
23 budget."; and

24 (4) by striking paragraph (4) and redesignating
25 paragraph (5) as paragraph (4).

1 SEC. 205. EFFECTIVE DATE.

2 This title shall take effect on the date of enactment of
3 this title with respect to fiscal year 1991 and all subsequent
4 fiscal years.

5 TITLE III—TRUST FUND FOR THE REDUCTION
6 OF THE PUBLIC DEBT

7 SEC. 301. PUBLIC DEBT REDUCTION POLICY.

8 It is the policy of the United States that—

9 (1) not later than September 30, 1989, the Con-
10 gress shall amend the Internal Revenue Code to estab-
11 lish a special debt retirement tax or taxes dedicated to
12 the reduction of the public debt, or earmark an existing
13 tax or taxes for that purpose;

14 (2) the revenues collected from the debt retire-
15 ment tax shall be especially titled so that citizens may
16 be aware of their purpose;

17 (3) the revenues collected under the debt retire-
18 ment tax shall be deposited to a separate trust fund
19 account;

20 (4) the trust fund shall be used only for the retire-
21 ment of the public debt;

22 (5) the Secretary of the Treasury shall administer
23 the account with the advice of a bipartisan board con-
24 sisting of the Secretary of the Treasury, as chairman,
25 the Chairman and Ranking Minority Members of the
26 Committee on Finance, the Committee on Ways and

1 Means, and the Committees on the Budget of the
2 Senate and the House of Representatives, and the
3 Chairman of the Federal Reserve Board;

4 (6) any debt retirement tax enacted shall expire
5 upon the reduction of the public debt to a target level
6 of not more than 20 percent of the average Gross Na-
7 tional Product over the previous 3 years; and

8 (7) in determining what type of tax is appropriate,
9 the Congress shall take into account ability to pay.

10 TITLE IV—MANDATED REDUCTION OF THE
11 PUBLIC DEBT

12 SEC. 401. DEFINITION OF "DEFICIT".

13 Section 3 of the Congressional Budget Act of 1974 is
14 amended by striking paragraph (6) and inserting in lieu
15 thereof:

16 "(6) The term 'deficit' means, with respect to any
17 fiscal year, the amount by which combined budget out-
18 lays for the operating and debt and interest budgets for
19 such fiscal year exceed combined revenues for the op-
20 erating and debt and interest budgets for such fiscal
21 year. Amounts paid by the Federal Financing Bank for
22 the purchase of loans made or guaranteed by any de-
23 partment, agency, or instrumentality of the Govern-
24 ment of the United States shall be treated as outlays of
25 such department, agency, or instrumentality."

1 SEC. 402. REDUCTION OF DEFICITS.

2 Section 3 of the Congressional Budget Act of 1974 is
3 amended by striking paragraph (7) and inserting in lieu
4 thereof:

5 “(7) The term ‘maximum deficit amount’ means—

6 “(A) with respect to fiscal year 1989,
7 \$256,000,000,000;

8 “(B) with respect to fiscal year 1990,
9 \$224,000,000,000;

10 “(C) with respect to fiscal year 1991,
11 \$193,000,000,000;

12 “(D) with respect to fiscal year 1992,
13 \$162,000,000,000;

14 “(E) with respect to fiscal year 1993,
15 \$131,000,000,000;

16 “(F) with respect to fiscal year 1994,
17 \$100,000,000,000;

18 “(G) with respect to fiscal year 1995,
19 \$69,000,000,000;

20 “(H) with respect to fiscal year 1996,
21 \$38,000,000,000;

22 “(I) with respect to fiscal year 1997,
23 \$7,000,000,000;

24 “(J) with respect to fiscal year 1998,
25 \$24,000,000,000 (surplus);

1 “(K) with respect to fiscal year 1999,
2 \$55,000,000,000 (surplus);

3 “(L) with respect to fiscal year 2000,
4 \$86,000,000,000 (surplus);

5 “(M) with respect to fiscal year 2001,
6 \$117,000,000,000 (surplus);

7 “(N) with respect to fiscal year 2002,
8 \$148,000,000,000 (surplus); and

9 “(O) with respect to fiscal year 2003 and all
10 subsequent fiscal years until the public debt has
11 been reduced to less than 20 percent of the Gross
12 National Product, \$150,000,000,000 (surplus).”.

13 **SEC. 403. REVENUE REQUIREMENTS.**

14 Section 252(a)(7) of the Balanced Budget and Emer-
15 gency Deficit Control Act of 1985 is amended by inserting at
16 the end thereof the following new paragraph:

17 “(8) REVENUE REQUIREMENTS.—(A) No later
18 than 7 days after the issuance of a report pursuant to
19 section 251(a)(2)(B) indicating that the deficit excess
20 for a fiscal year exceeds \$10,000,000,000, the Com-
21 mittees on the Budget of the House of Representatives
22 and the Senate shall report to their respective Houses
23 a concurrent resolution directing the Committee of
24 Ways and Means of the House of Representatives and
25 the Committee on Finance of the Senate to report

1 within 60 days changes in law within their jurisdictions
2 sufficient to increase revenues by an amount equal to
3 one-half of the deficit excess reported in such report.

4 “(B) The provisions relating to the consideration
5 of a joint resolution under section 254(a)(4) shall apply
6 to the consideration of a concurrent resolution reported
7 pursuant to this subsection in the House of Represent-
8 atives or the Senate.

9 “(C) The provisions relating to the consideration
10 of reconciliation legislation under sections 310 of the
11 Congressional Budget Act of 1974 shall apply to the
12 consideration of legislation reported pursuant to a con-
13 current resolution under this section.”.

14 **SEC. 404. CONFORMING CHANGES.**

15 (a) Section 257(10) of the Balanced Budget and Emer-
16 gency Deficit Control Act of 1985 is amended by striking “of
17 fiscal years 1988 through 1992 and zero with respect to
18 fiscal year 1993” and inserting in lieu thereof “fiscal year”.

19 (b) Section 275(b) of the Balanced Budget and Emer-
20 gency Deficit Control Act of 1985 is amended—

21 (1) in paragraph (1), by striking “1993” and in-
22 serting in lieu thereof “2004”; and

23 (2) in paragraph (2), by striking “and the second
24 sentence of section 3(6) of such Act (as added by sec-
25 tion 201(a)(1) of this joint resolution)”.

1 TITLE V—INVESTMENT OF EXCESS SOCIAL
 2 SECURITY TRUST FUNDS IN LOAN PROGRAMS
 3 SEC. 501. INVESTMENT OF EXCESS SOCIAL SECURITY TRUST
 4 FUNDS IN LOAN PROGRAMS.

5 The General Accounting Office shall study and report to
 6 the Committee on Finance, the Committee on Ways and
 7 Means, and the Committees on the Budget of the Senate and
 8 the House of Representatives on the efficacy of amending
 9 title II of the Social Security Act to preserve and protect the
 10 excess funds in the Trust Funds under that title by providing
 11 that they be invested in sound, interest-bearing loans to help
 12 rebuild the national facilities and to improve the national re-
 13 sources, specifically, in United States interest-bearing loan
 14 programs for education, economic development, housing, and
 15 such public works as water and sewer, highway and bridge
 16 construction.

17 TITLE VI—ALTERNATE-YEAR RECONCILIATION
 18 SEC. 601. TIMETABLE.

19 Section 300 of the Congressional Budget Act of 1974 is
 20 amended to read as follows:

21 “SEC. 300. The timetable for the Congressional budget
 22 process is as follows:

“On or before:	Action to be completed:
First Monday after January	
3	President submits budget.
February 15	Congressional Budget Office submits report to Budget Committees.

15

February 25.....	Committees submit views and estimates to Budget Committees.
March 15.....	Initial OMB/CBO snapshot.
March 20.....	CBO issues its initial report to OMB and Congress.
March 25.....	OMB issues its initial report to the President and Congress.
March 25.....	President issues initial order.
April 9.....	President transmits to Congress a detailed message regarding the initial order.
April 15.....	Congress completes action on concurrent resolution on the budget.
May 15.....	Appropriations bills may be considered in the House.
June 10.....	House Appropriations Committee reports last appropriations bill.
September 30.....	Congress completes action on reconciliation legislation in odd-numbered years.
September 30.....	Congress completes action on appropriations legislation.
October 1.....	Fiscal year begins and any initial order becomes effective.
October 10.....	CBO issues its revised report to OMB and Congress.
October 15.....	OMB issues its revised report to the President and Congress.
October 15.....	President issues final order (which becomes effective immediately).
October 30.....	President transmits to Congress a detailed message regarding the initial order.
November 15.....	Comptroller General issues compliance report."

1 SEC. 602. ALTERNATE-YEAR RECONCILIATION.

2 Section 310(a) of the Congressional Budget Act of 1974
3 is amended by—

4 (1) inserting after "any" the following: "even-
5 numbered"; and

6 (2) inserting after "fiscal year" the first time it
7 appears the following: "(or any odd-numbered fiscal
8 year in which the Director of the Office of Manage-
9 ment determines in his initial report pursuant to sec-
10 tion 251(a)(2)(B) of the Balanced Budget and Emer-

1 gency Deficit Control Act of 1985 that a deficit excess
2 exists)".

3 **SEC. 603. EARLY INITIAL OMB REPORT.**

4 The Balanced Budget and Emergency Deficit Control
5 Act of 1985 is amended—

6 (1) in section 251(a)(1)(A), by striking "August
7 15" and inserting in lieu thereof "March 15";

8 (2) in section 251(a)(2)(A), by striking "August
9 20" and inserting in lieu thereof "March 20";

10 (3) in section 251(a)(2)(B), by striking "August
11 25" and inserting in lieu thereof "March 25";

12 (4) in section 251(a)(2)(C), by striking clauses (iii)
13 and (iv);

14 (5) in section 251(a)(3)(A)(ii)(II), by striking
15 "August 15" and inserting in lieu thereof "March 15";

16 (6) in section 251(c)(1)(A), by striking "August
17 15" and inserting in lieu thereof "March 15";

18 (7) in section 252(a)(1), by striking "August 25"
19 and inserting in lieu thereof "March 25"; and

20 (8) in section 252(b)(2), by striking "August 15"
21 and inserting in lieu thereof "March 15".

101ST CONGRESS
1ST SESSION

S. 391

To reform the budget process.

IN THE SENATE OF THE UNITED STATES

FEBRUARY 8 (legislative day, JANUARY 3), 1989

Mr. DOMENICI (for himself, Mr. JOHNSTON, and Mr. DASCHLE) introduced the following bill, which was read twice and referred jointly pursuant to the order of August 4, 1977, to the Committees on the Budget and Governmental Affairs with instructions that if one committee reports, the other committee has thirty days of continuous session to report or be discharged

A BILL

To reform the budget process.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 SECTION 1. AMENDMENTS TO CONGRESSIONAL BUDGET ACT
4 OF 1974.

5 Except as otherwise expressly provided, whenever any
6 provision of this Act is expressed as an amendment to a sec-
7 tion or other provision, the reference shall be deemed to be
8 made to a section or other provision of the Congressional
9 Budget Act of 1974.

1 SEC. 2. ESTABLISHMENT OF JOINT COMMITTEE ON THE
2 BUDGET.

3 (a) ESTABLISHMENT OF COMMITTEE.—Title I is
4 amended to read as follows:

5 **“TITLE I—ESTABLISHMENT OF**
6 **JOINT COMMITTEE**

7 “ESTABLISHMENT OF JOINT COMMITTEE

8 “SEC. 101. (a) There is established a joint committee of
9 the Congress to be known as the Joint Committee on the
10 Budget (hereinafter in this title referred to as the ‘joint com-
11 mittee’).

12 “(b) The joint committee shall be composed of 9 mem-
13 bers of the Senate as provided in subsection (c) and 9 mem-
14 bers of the House of Representatives as provided in subsec-
15 tion (d).

16 “(c) Members of the joint committee from the Senate
17 shall be as follows:

18 “(1) The Majority Leader and the Minority
19 Leader, or their designees.

20 “(2) The chairman and ranking member of the
21 Committee on Finance.

22 “(3) The chairman and ranking member of the
23 Committee on Appropriations.

24 “(4)(A) The chairman and the ranking member of
25 the Committee on the Budget, as constituted on the
26 day before the date of enactment of this title.

1 “(B) If the chairman designated in subparagraph
2 (A) resigns, one member selected by the Majority
3 Leader.

4 “(C) If the ranking member designated in sub-
5 paragraph (A) resigns, one member selected by the
6 Minority Leader.

7 “(5) One additional member selected by the
8 Majority Leader.

9 “(d) Members of the joint committee from the House of
10 Representatives shall be appointed as follows:

11 “(1) The Speaker and the Minority Leader, or
12 their designees.

13 “(2) The chairman and ranking member of the
14 Committee on Ways and Means.

15 “(3) The chairman and ranking member of the
16 Committee on Appropriations.

17 “(4)(A) The chairman and the ranking member of
18 the Committee on the Budget, as constituted on the
19 day before the date of enactment of this title.

20 “(B) If the chairman designated in subparagraph
21 (A) resigns, one member selected by the Speaker.

22 “(C) If the ranking member designated in sub-
23 paragraph (A) resigns, one member selected by the
24 Minority Leader.

1 “(5) One additional member selected by the
2 Speaker.

3 “(e)(1) A majority of the members of the joint committee
4 shall constitute a quorum for the transaction of business, but
5 the joint committee may fix a lesser number as a quorum for
6 the purpose of taking testimony.

7 “(2) Vacancies in the membership of the joint committee
8 shall not affect the power of the remaining members to exe-
9 cute the function of the joint committee and shall be filled in
10 the same manner as in the case of the original appointment.

11 “(3) The joint committee shall select a chairman and a
12 vice chairman from among the members designated pursuant
13 to paragraphs (4) and (5) of subsection (c) and paragraphs (4)
14 and (5) of subsection (d) at the beginning of each Congress.
15 The vice chairman shall act in the place of the chairman in
16 the absence of the chairman. The chairmanship shall alter-
17 nate between the Senate and House of Representatives with
18 each Congress. The chairman of the joint committee shall be
19 selected by the Members from that House entitled to the
20 chairmanship. The vice chairman shall be chosen by the
21 members from the House other than that of the chairman.

22 “(4) No measure or recommendation shall be reported
23 from the joint committee unless a majority of the members
24 designated pursuant to subsection (c) and a majority of the
25 members designated pursuant to subsection (d) assent.

1 “(f)(1) There shall be referred to the joint committee all
2 joint resolutions on the budget (as defined in section 3(a)(4) of
3 the Congressional Budget Act of 1974) and all other matters
4 required to be referred to that committee under titles III and
5 IV of that Act, and messages, petitions, memorials, and other
6 matters relating thereto.

7 “(2) The joint committee shall have the duty—

8 “(A) to report the matters required to be re-
9 ported by it under titles III and IV of the Con-
10 gressional Budget Act of 1974;

11 “(B) to make continuing studies of the effect
12 on budget outlays of relevant existing and pro-
13 posed legislation and to report the results of such
14 studies to the Congress on a recurring basis;

15 “(C) to request and evaluate continuing stud-
16 ies of tax expenditures, to devise methods of co-
17 ordinating tax expenditures, policies, and pro-
18 grams with direct budget outlays, and to report
19 the results of such studies to the Congress on a
20 recurring basis;

21 “(D) to review, on a continuing basis, the
22 conduct by the Congressional Budget Office of its
23 functions and duties; and

24 “(E) to function as the committee of confer-
25 ence on matters required to be reported by it

1 under titles III and IV of the Congressional
2 Budget Act of 1974.

3 "POWERS OF THE JOINT COMMITTEE

4 "SEC. 102. (a) The joint committee or any duly author-
5 ized subcommittee thereof is authorized in its discretion (1) to
6 make investigations into any matter within its jurisdiction, (2)
7 to make expenditures from funds appropriated pursuant to
8 subsection (d), (3) to employ personnel, (4) to hold hearings,
9 (5) to sit and act at any time or place during the sessions,
10 recesses, and adjourned periods of the Senate or the House of
11 Representatives, (6) to require, by subpoena or otherwise, the
12 attendance of witnesses and the production of correspond-
13 ence, books, papers, and documents, (7) to take depositions
14 and other testimony, (8) to procure the services of individual
15 consultants or organizations thereof, in accordance with the
16 provisions of section 202(i) of the Legislative Reorganization
17 Act of 1946, and (9) with the prior consent of the Govern-
18 ment department or agency concerned, to use on a reimburs-
19 able basis the services of personnel of any such department or
20 agency.

21 "(b) The chairman of the joint committee or any
22 member thereof may administer oaths to witnesses.

23 "(c) Subpenas authorized by the joint committee may be
24 issued over the signature of the chairman, the vice chairman,
25 or any member of the joint committee designated by the

1 chairman, and may be served by any person designated by
2 the chairman or any member signing the subpoena.

3 “(d) To enable the joint committee to exercise its
4 powers, functions, and duties under this title, there are au-
5 thorized to be appropriated for each fiscal year such sums as
6 may be necessary, to be disbursed by the Secretary of the
7 Senate on vouchers signed by the chairman or vice chairman,
8 except that vouchers shall not be required for the disburse-
9 ment of salaries of employees paid at an annual rate.”.

10 (b) AMENDMENT TO TABLE OF CONTENTS.—The table
11 of contents for the Congressional Budget and Impoundment
12 Control Act of 1974 is amended by striking title I and insert-
13 ing the following:

“TITLE I—ESTABLISHMENT OF JOINT COMMITTEE

“Sec. 101. Establishment of Joint Committee

“Sec. 102. Powers of Joint Committee.”

14 (c) STANDING RULES OF THE SENATE.—Rule XXV of
15 the Standing Rules of the Senate is amended—

16 (1) in paragraph 1, by striking subparagraph (e)
17 and redesignating the succeeding subparagraphs
18 accordingly;

19 (2) in paragraph 3(a) by striking the item relating
20 to the Committee on the Budget; and

21 (3) in paragraph 3(c) by inserting after the item
22 for “Judicial Affairs” the following:

“Committee on the Budget 9”.

1 (d) AMENDMENTS IMPLEMENTING THE JOINT COM-
2 MITTEE ON THE BUDGET.—(1) Section 201(a)(2) is amended
3 by striking "Committees on the Budget of the House and the
4 Senate" and inserting "Joint Committee on the Budget".

5 (2) Section 202(a) is amended by—

6 (A) striking "Assistance to Budget Committees"
7 and inserting "Assistance to Joint Committee on the
8 Budget";

9 (B) striking "Committees on the Budget of both
10 Houses" and inserting "Joint Committee on the
11 Budget";

12 (C) striking "such committees" both places it ap-
13 pears and inserting "the Committee"; and

14 (D) striking "their jurisdictions" and inserting "its
15 jurisdiction".

16 (3) Section 202(d) is amended by striking "Committee
17 on the Budget of either House" and inserting "Joint Com-
18 mittee on the Budget".

19 (4) Section 202(f) is amended by—

20 (A) striking "Budget Committees" and inserting
21 "Joint Committee on the Budget"; and

22 (B) striking in paragraphs (1) and (2) "Commit-
23 tees on the Budget of the House of Representatives
24 and the Senate" both places it appears and inserting
25 "Joint Committee on the Budget".

1 (5) Section 301 is amended by striking subsections (c)
2 and (h) and redesignating the remaining subsections
3 accordingly.

4 (6) Section 301(d) is amended—

5 (A) by striking “shall submit to the Committee on
6 the Budget of the House”;

7 (B) by striking “Committee on the Budget of the
8 Senate” and inserting “Joint Committee on the
9 Budget”;

10 (C) by striking “Committees on the Budget of
11 both Houses” both places it appears and inserting
12 “Joint Committee on the Budget”; and

13 (D) by striking “Committee on the Budget of its
14 House” and inserting “Joint Committee on the
15 Budget”.

16 (7) Section 301(e) is amended by striking “Committee
17 on the Budget of each House” both places it appears and
18 inserting “Joint Committee on the Budget”.

19 (8) Section 302(g) is amended by—

20 (A) striking “Budget Committees” in the caption
21 and inserting “Joint Committee on the Budget”; and

22 (B) striking beginning with “on” through the
23 period and inserting “in each House on the basis of es-
24 timates made by the chairman or vice chairman for the
25 Joint Committee on the Budget from such House.”.

1 (9) Section 303(c) is amended—

2 (A) in paragraph (1) striking “Committee on the
3 Budget of the Senate” and inserting “Joint Committee
4 on the Budget”; and

5 (B) in paragraph (3), by striking “Committee on
6 the Budget” and inserting “Joint Committee on the
7 Budget”.

8 (10) Section 305(a)(1) is amended by—

9 (A) striking “Committee on the Budget of the
10 House of Representatives” and inserting “Joint Com-
11 mittee on the Budget”; and

12 (B) striking “Committee on the Budget” and in-
13 serting “Joint Committee on the Budget”.

14 (11) Section 305(a)(3) is amended by—

15 (A) inserting “or vice chairman” after “chair-
16 man”; and

17 (B) striking “Committee on the Budget of the
18 House” and inserting “Joint Committee on the Budget
19 from the House”.

20 (12) Section 305(a)(4) is amended by striking “Commit-
21 tee on the Budget of the House” and inserting “Joint Com-
22 mittee on the Budget”.

23 (13) Section 305(b)(3) is amended by—

24 (A) inserting “or vice chairman” after “chair-
25 man”; and

1 (B) striking "Committee on the Budget of the
2 Senate" and inserting "Joint Committee on the
3 Budget from the Senate".

4 (14) Section 305(b)(4) is amended by striking "Commit-
5 tee on the Budget of the Senate" and inserting "Joint Com-
6 mittee on the Budget".

7 (15) Section 306 is amended to read as follows:

8 "LEGISLATION DEALING WITH CONGRESSIONAL BUDGET
9 MUST BE HANDLED BY THE JOINT COMMITTEE ON
10 THE BUDGET

11 "SEC. 306. (a) No bill or resolution, and no amendment
12 to any bill or resolution, dealing with any matter which is
13 within the jurisdiction of the Joint Committee on the Budget
14 shall be considered in either House unless it is a bill or reso-
15 lution which has been reported by the Joint Committee on
16 the Budget (or from which the consideration of such commit-
17 tee has been discharged) or unless it is an amendment to such
18 a bill or resolution.

19 "(b) For purposes of this section, only members desig-
20 nated in section 101(c) shall vote on the reporting of legisla-
21 tion to the Senate and only members designated in section
22 101(d) shall vote on the reporting of legislation to the House.

23 "(c) Matter within the jurisdiction of the Joint Commit-
24 tee on the Budget shall include legislative proposals which
25 would affect—

1 “(1) the functions, duties, and powers of the Joint
2 Committee on the Budget;

3 “(2) the functions, duties, and powers of the Con-
4 gressional Budget Office;

5 “(3) the process by which Congress annually es-
6 tablishes the appropriate level of budget authority, out-
7 lays, revenues, deficits or surpluses, and public debt,
8 including subdivisions thereof;

9 “(4) the limiting if backdoor spending devices;

10 “(5) the timetables for Presidential submission of
11 appropriations and authorization requests;

12 “(6) the definitions of what constitutes impound-
13 ment;

14 “(7) the process and determination by which im-
15 poundments must be reported to and considered by
16 Congress;

17 “(8) the mechanisms to insure Executive compli-
18 ance with the provisions of title X of the Impoundment
19 Control Act; and

20 “(9) the provisions which affect the content or de-
21 termination of amounts included in or excluded from
22 the congressional budget or the calculation of such
23 amounts.”.

24 (16) Section 308(b)(2) is amended by—

1 (A) striking "Committee on the Budget of each
2 House" and inserting "Joint Committee on the
3 Budget";

4 (B) striking "its House" and inserting "each
5 House"; and

6 (C) striking the sentence after subparagraph (C).

7 (17) Section 310(b)(2) is amended by—

8 (A) striking "Committee on the Budget of its
9 House" and inserting "Joint Committee on the
10 Budget"; and

11 (B) striking "to its House".

12 (18) Section 310(d)(4) is amended by striking beginning
13 with "Committee" through the period and inserting "chair-
14 man and vice chairman of the Joint Committee on the
15 Budget in their respective Houses.".

16 (19) Section 310(d)(5) is amended by striking "its" and
17 inserting "the Joint".

18 (20) Section 311(c) is amended by striking beginning
19 with "on" through the period and inserting "in each House
20 on the basis of estimates made by the chairman and vice
21 chairman for the Joint Committee on the Budget from such
22 House.".

23 (21) Section 703(a) is amended by striking "Committee
24 on the Budget of the House of Representatives and the
25 Senate" and inserting "Joint Committee on the Budget".

1 (22) Section 703(b) is amended by—

2 (A) striking “Committee on the Budget of each
3 House” and inserting “Joint Committee on the
4 Budget”; and

5 (B) striking “to its House”.

6 (e) EFFECTIVE DATE.—The amendments made by this
7 section shall take effect on the first day of the one hundred
8 and second Congress.

9 SEC. 3. BIENNIAL JOINT RESOLUTION ON THE BUDGET.

10 (a) REVISION OF TIMETABLE.—Section 300 of the
11 Congressional Budget Act of 1974 is amended to read as
12 follows:

13 “TIMETABLE

14 “SEC. 300. The timetable with respect to the Congres-
15 sional budget process for any Congress (beginning with the
16 One hundred and second Congress) is as follows:

“First Session

“On or before:	Action to be completed:
Fifteenth day after the session begins.....	President submits budget recommendations.
February 15.....	Congressional Budget Office submits report to Joint Budget Committee.
March 15.....	Committees submit views and estimates to Joint Budget Committee.
April 15.....	Joint Budget Committee reports joint resolution on the biennial budget.
May 15.....	Congress completes action on joint resolution on the biennial budget or automatic budget resolution takes effect.
June 10.....	Annual appropriation bills may be considered. House Appropriations Committee reports last annual appropriation bill.
September 30.....	Congress completes action on reconciliation legislation.
	Congress completes action on annual appropriations bills.

"First Session—Continued

October 1 Biennium begins.

"Second Session

"On or before: Action to be completed:
 Fifteenth day after the session
 begins President submits budget revisions.
 February 15 Congressional Budget Office submits report to
 Budget Committees.
 June 10 House Appropriations Committee reports last
 annual appropriation bill.
 September 30 Congress completes action on annual appropria-
 tion bills."

1 (b) AMENDMENTS IMPLEMENTING JOINT RESOLU-
 2 TION AND BIENNIAL CONGRESSIONAL BUDGETING.—

3 (1) DECLARATION OF PURPOSE.—Section 2(2) is
 4 amended by striking "each year" and inserting "bien-
 5 nially".

6 (2) DEFINITIONS.—(A) Paragraph (4) of section 3
 7 is amended to read as follows:

8 "(4) The term 'joint resolution on the budget'
 9 means—

10 "(A) a joint resolution setting forth the con-
 11 gressional budget for the United States Govern-
 12 ment for a biennium as provided in section 301;
 13 and

14 "(B) any other joint resolution revising the
 15 congressional budget for the United States Gov-
 16 ernment for a biennium as described in section

17 301."

(B) Section 3 is further amended by adding at the end thereof the following new paragraphs:

“(11) The term ‘biennium’ means the period of 2 consecutive fiscal years beginning on October 1 of any odd-numbered year.

“(12) The term ‘major functional categories’ means the allocation of budget authority, budget outlays, and credit authority separated into the following functional totals:

“(A) defense discretionary;

“(B) defense entitlement and mandatory;

“(C) domestic discretionary;

“(D) domestic entitlement and mandatory;

“(E) international affairs discretionary;

“(F) international affairs entitlement and mandatory;

“(G) offsetting receipts; and

“(H) net interest.”.

(3) DUTIES OF CBO.—(A) Section 202(f)(1) is amended—

(i) by striking “February 15 of each year” and inserting “February 15 of each odd-numbered calendar year”;

1 (ii) by striking "the fiscal year commencing"
2 and inserting "each fiscal year in the biennium
3 commencing";

4 (iii) by striking "such fiscal year" the first
5 place it appears and inserting "such biennium";
6 and

7 (iv) by striking "such fiscal year" the second
8 place it appears and inserting "each fiscal year in
9 such biennium";

10 (B) Section 202(f) is further amended—

11 (i) in paragraph (2) by striking "paragraph
12 (1)" and inserting "paragraphs (1) and (2)";

13 (ii) in paragraph (3)—

14 (I) by striking "each year" and insert-
15 ing "each even-numbered calendar year",

16 (II) by striking "the fiscal year ending
17 September 30 of that calendar year" in
18 clause (A) and inserting "either fiscal year in
19 the biennium beginning October 1 of the pre-
20 ceding calendar year",

21 (III) by striking "the fiscal year ending
22 September 30 of that calendar year" in
23 clause (B) and inserting "either fiscal year of
24 such biennium", and

1 (IV) by striking "fiscal year beginning
2 October 1 of that calendar year" and insert-
3 ing "succeeding biennium";

4 (iii) by redesignating paragraphs (2) and (3)
5 as paragraphs (3) and (4) respectively; and

6 (iv) by inserting after paragraph (1) the fol-
7 lowing new paragraph:

8 "(2) On February 15 of each even-numbered year,
9 the Director shall transmit to the Joint Committee on
10 the Budget such revisions of the report required by
11 paragraph (1) as may be necessary due to changing
12 economic conditions and due to any budget revisions
13 transmitted by the President pursuant to subsection (b)
14 of section 1106 of title 31, United States Code."

15 (4) BIENNIAL JOINT RESOLUTION ON THE
16 BUDGET.—(A) Section 301(a) is amended—

17 (i) by striking "April 15 of each year" and
18 inserting "May 15 of each odd-numbered year";

19 (ii) by striking "the fiscal year beginning on
20 October 1 of such year" the first place it appears
21 and inserting "biennium beginning on October 1
22 of such year";

23 (iii) by striking "the fiscal year beginning on
24 October 1 of such year" the second place it ap-

1 pears and inserting "each fiscal year in such
2 period";

3 (iv) by striking "each of the two ensuing
4 fiscal years" and inserting "each fiscal year in the
5 succeeding biennium"; and

6 (v) by striking "concurrent resolution" in-
7 cluding in the caption and inserting "joint reso-
8 lution".

9 (B) Section 301(b) is amended—

10 (i) in the matter preceding paragraph (1) by
11 inserting "for a biennium" after "resolution on
12 the budget";

13 (ii) in paragraph (3) by striking "for such
14 fiscal year" and inserting "for either fiscal year in
15 such biennium";

16 (iii) by adding at the end thereof the
17 following:

18 "All matters and procedures set forth pursuant to paragraph
19 (4) shall remain in effect only for the biennium beginning on
20 October 1 of such fiscal year."; and

21 (iv) by striking "concurrent resolution" in-
22 cluding in the caption and inserting "joint
23 resolution".

1 (C) Section 301(d) is amended by striking "Febru-
2 ary 25 of each year" and inserting "March 15 of each
3 odd-numbered year".

4 (D) Section 301(e) is amended—

5 (i) in the first sentence by striking "fiscal
6 year" and inserting "biennium";

7 (ii) by inserting between the second and third
8 sentences the following new sentence: "On or
9 before April 15 of each odd-numbered year the
10 Joint Committee on the Budget shall report to
11 each House the joint resolution on the budget re-
12 ferred to in subsection (a) for the biennium begin-
13 ning on October 1 of that year.";

14 (iii) in paragraph (6)—

15 (I) by striking "five" and inserting
16 "four",

17 (II) by striking "such fiscal year" and
18 inserting "the first fiscal year of such bien-
19 nium,"

20 (III) by striking "such period" and in-
21 serting "such four-fiscal-year period"; and

22 (iv) by striking "concurrent resolution" and
23 inserting "joint resolution".

24 (E) Section 301(f) is amended—

21

1 (i) by striking "fiscal year" each place it ap-
2 pears and inserting "biennium"; and

3 (ii) by striking "concurrent resolution" and
4 inserting "joint resolution".

5 (F) Subsection (g) of section 301 is amended by
6 striking "concurrent resolution" and inserting "joint
7 resolution".

8 (G) Section 301(i)(1)(A) is amended—

9 (i) by striking "for a fiscal year" and insert-
10 ing "for a biennium";

11 (ii) by striking "for such fiscal year" the first
12 place it appears and inserting "for either fiscal
13 year in such biennium"; and

14 (iii) by striking "concurrent resolution" and
15 inserting "joint resolution".

16 (H) Section 301(i)(2) is amended—

17 (i) by striking subparagraphs (B) and (C); and

18 (ii) by striking "(A)".

19 (I) The section heading of section 301 is amended
20 by striking "ANNUAL ADOPTION OF CONCUR-
21 RENT" and inserting "BIENNIAL ADOPTION OF
22 JOINT".

23 (J) The table of contents set forth in section 1(b)
24 of the Congressional Budget and Impoundment Control
25 Act of 1974 is amended by striking "Annual Adoption

1 of the Concurrent" in the item relating to section 301
2 and inserting "Biennial Adoption of the Joint".

3 (5) SECTION 303 POINT OF ORDER.—(A) Section
4 303(a) is amended by striking "for fiscal year" and in-
5 serting "for the biennium including such fiscal year".

6 (B) Section 303(b) of such Act (2 U.S.C. 634(b))
7 is amended—

8 (i) by striking "fiscal year" each place it ap-
9 pears and inserting "biennium";

10 (ii) in paragraph (1), by inserting before the
11 semicolon " , if such bill or resolution does not
12 cause the level of entitlement and mandatory
13 spending to be exceeded for the two fiscal years
14 following the biennium to which the joint resolu-
15 tion applies"; and

16 (iii) in the matter following paragraph (2) by
17 striking "any calendar year" and inserting in lieu
18 thereof "any odd-numbered calendar year" and by
19 striking "in the House of Representatives".

20 (C) Section 303, including the heading, is amend-
21 ed by striking "concurrent resolution" and inserting
22 "joint resolution".

23 (D) The table of contents set forth in section 1(b)
24 of the Congressional Budget and Impoundment Control

1 Act of 1974 is amended by striking "Concurrent" in
2 the item relating to section 303 and inserting "Joint".

3 (6) PERMISSIBLE REVISIONS OF JOINT RESO-
4 LUTIONS ON THE BUDGET.—(A) Section 304 is
5 amended—

6 (i) by striking "fiscal year" the first two
7 places it appears and inserting "biennium";

8 (ii) by striking "for such fiscal year";

9 (iii) by inserting before the period "for such
10 biennium"; and

11 (iv) by striking "concurrent resolution", in-
12 cluding in the heading, and inserting "joint resolu-
13 tion".

14 (B) The table of contents set forth in section 1(b)
15 of the Congressional Budget and Impoundment Control
16 Act of 1974 is amended by striking "Concurrent" in
17 the item relating to section 304 and inserting "Joint".

18 (7) PROCEDURES FOR CONSIDERATION OF
19 BUDGET RESOLUTIONS.—Section 305 is amended—

20 (A) in subsection (a)(3) by striking "for a
21 fiscal year";

22 (B) in subsection (b)(3) by striking "for a
23 fiscal year"; and

1 (C) by striking "concurrent resolution", in-
2 cluding in the heading, and inserting "joint
3 resolution".

4 (8) REPORTS AND SUMMARIES OF CONGRESSION-
5 AL BUDGET ACTIONS.—(A)(i) Section 308(a)(1) is
6 amended—

7 (I) in the matter preceding subparagraph (A)
8 by striking "fiscal year" and inserting "bien-
9 nium",

10 (II) in subparagraph (A) by striking "fiscal
11 year" and inserting "biennium", and

12 (III) in subparagraph (C) by striking "such
13 fiscal year" and inserting "such biennium".

14 (ii) Section 308(a)(2) by striking "fiscal year" and
15 inserting "biennium".

16 (B) Section 308(b)(1) is amended—

17 (i) by striking "fiscal year" the first place it
18 appears and inserting "biennium";

19 (ii) by inserting "for such biennium" after
20 "concurrent resolution on the budget"; and

21 (iii) by striking "the fiscal year preceding
22 such fiscal year" and inserting "each fiscal year
23 in the biennium preceding such biennium".

24 (C) Section 308(c) is amended—

1 (i) by striking "Five" in the subsection head-
2 ing and inserting "Four";

3 (ii) by striking "fiscal year" each place it ap-
4 pears in the matter preceding paragraph (1) and
5 inserting "biennium"; and

6 (iii) by striking "5 fiscal years" and inserting
7 "4 fiscal years".

8 (D) Section 308 is amended by striking "concur-
9 rent resolution" and inserting "joint resolution".

10 (9) RECONCILIATION PROCESS.—(A) Section
11 310(a) is amended—

12 (i) by striking "any fiscal year" in the matter
13 preceding paragraph (1) and inserting "any bien-
14 nium";

15 (ii) in paragraph (1) by striking "such fiscal
16 year" each place it appears and inserting in lieu
17 thereof "each fiscal year in such biennium"; and

18 (iii) in paragraph (2) by inserting "for each
19 fiscal year in such biennium" after "revenues".

20 (B) Section 310(f) is amended—

21 (i) in paragraph (1)—

22 (I) by inserting "for a biennium" after
23 "subsection (b)", and

1 (II) by striking "June 15 of each year"
2 and inserting "September 30 of the calendar
3 year in which the biennium begins"; and
4 (ii) in paragraph (2)—

5 (I) by inserting "of any odd-numbered
6 calendar year" after "July",

7 (II) by striking "fiscal year beginning
8 on October 1 of the calendar year to which
9 the adjournment resolution pertains" and in-
10 serting "biennium beginning on October 1 of
11 such calendar year", and

12 (III) by striking "for such fiscal year"
13 and inserting "for such biennium".

14 (C) Section 310 is amended by striking "concur-
15 rent resolution" and inserting "joint resolution".

16 (10) SECTION 311 POINT OF ORDER.—(A) Sec-
17 tion 311(a) is amended—

18 (i) by striking "a concurrent resolution on
19 the budget for a fiscal year" and inserting "a joint
20 resolution on the budget for a biennium";

21 (ii) by striking "such fiscal year" the first,
22 second, and third places it appears and inserting
23 "a fiscal year in such biennium";

24 (iii) by striking "concurrent resolution on the
25 budget for such fiscal year" and inserting "joint

1 resolution on the budget for the biennium in
2 which such fiscal year occurs”;

3 (iv) by striking “deficit for such fiscal year”
4 and inserting “deficit for a fiscal year in such bi-
5 ennium”.

6 (B) Section 311 is amended by striking subsection
7 (b) and redesignating subsection (c) as (b).

8 (11) **BILLS PROVIDING NEW SPENDING AUTHOR-**
9 **ITY.**—Section 401(b)(2) is amended by striking “for
10 such fiscal year” the second place it appears and in-
11 serting “for the biennium in which such fiscal year
12 occurs”.

13 (12) **ANALYSIS BY CBO.**—Section 403(a) is
14 amended—

15 (A) by striking “the fiscal year” in paragraph
16 (1) and inserting “each fiscal year in the
17 biennium”;

18 (B) by striking “4 fiscal years following such
19 year” in paragraph (1) and inserting “each fiscal
20 year in the succeeding biennium”;

21 (C) by striking “the fiscal year” in paragraph
22 (2) and inserting “each fiscal year in the
23 biennium”; and

1 (D) by striking "four fiscal years following
2 such fiscal year" in paragraph (2) and inserting
3 "each fiscal year in the succeeding biennium".

4 SEC. 4. AMENDMENTS TO TITLE 31, UNITED STATES CODE.

5 (a) DEFINITION.—Section 1101 of title 31, United
6 States Code, is amended by adding at the end thereof the
7 following new paragraph:

8 "(3) 'biennium' has the meaning given to such
9 term in paragraph (11) of section 3 of the Congres-
10 sional Budget and Impoundment Control Act of 1974
11 (2 U.S.C. 622(11))".

12 (b) BUDGET AND APPROPRIATIONS AUTHORITY OF
13 THE PRESIDENT.—Section 1104(c) of title 31, United States
14 Code, is amended—

15 (1) by inserting "(1)" after "(c)";

16 (2) by striking the second sentence thereof; and

17 (3) by adding at the end thereof the following new
18 paragraph:

19 "(2) The budget submitted pursuant to section 1105 for
20 the biennium beginning on October 1, 1991, and the esti-
21 mates of outlays and proposed budget authority required to
22 be submitted under section 1109 for such biennium, shall be
23 set forth in the same accounts which are set forth in the
24 Budget Accounts Listing contained in the budget submitted
25 for fiscal year 1991 under section 1105. Any change in the

1 accounts used in the budget submitted under section 1105 for
2 the biennium beginning on October 1, 1991, or any succeed-
3 ing biennium, or in the estimates of outlays and proposed
4 budget authority required under section 1109 for any such
5 biennium, from the accounts set forth in the Budget Accounts
6 Listing contained in the budget submitted under section 1105
7 for fiscal year 1991, or the previous biennium, as the case
8 may be, shall be made only in consultation with the Commit-
9 tees on Appropriations, the Joint Committee on the Budget,
10 and the committees having legislative jurisdiction over the
11 programs or activities which will be affected by such
12 changes. The provisions of this paragraph do not prohibit the
13 inclusion of proposed new accounts in the Budget Accounts
14 Listing contained in the budget submitted pursuant to section
15 1105 solely for purposes of presenting estimates for proposed
16 new programs.”.

17 (c) BUDGET CONTENTS AND SUBMISSION TO THE
18 CONGRESS.—(1) So much of section 1105(a) of title 31,
19 United States Code, as precedes paragraph (1) thereof is
20 amended to read as follows:

21 “(a) On or before the fifteenth day after the day on
22 which the first session of a Congress convenes, beginning
23 with the one hundred and second Congress, the President
24 shall transmit to the Congress, the budget for the biennium
25 beginning on October 1 of such calendar year. The budget

1 transmitted under this subsection shall include a budget mes-
2 sage and summary and supporting information. The President
3 shall include in each budget the following:".

4 (2) Section 1105(a)(5) of title 31, United States Code, is
5 amended by striking "the fiscal year for which the budget is
6 submitted and the 4 fiscal years after that year" and insert-
7 ing "each fiscal year in the biennium for which the budget is
8 submitted and in the succeeding biennium".

9 (3) Section 1105(a)(6) of title 31, United States Code, is
10 amended by striking "the fiscal year for which the budget is
11 submitted and the 4 fiscal years after that year" and insert-
12 ing "each fiscal year in the biennium for which the budget is
13 submitted and in the succeeding biennium".

14 (4) Section 1105(a)(9)(C) of title 31, United States
15 Code, is amended by striking "the fiscal year" and inserting
16 "each fiscal year in the biennium".

17 (5) Section 1105(a)(12) of title 31, United States Code,
18 is amended—

19 (A) by striking "the fiscal year" in subparagraph
20 (A) and inserting "each fiscal year in the biennium";
21 and

22 (B) by striking "4 fiscal years after that year" in
23 subparagraph (B) and inserting "2 fiscal years immedi-
24 ately following the second fiscal year in such
25 biennium".

1 (6) Section 1105(a)(13) of title 31, United States Code,
2 is amended by striking "the fiscal year" and inserting "each
3 fiscal year in the biennium".

4 (7) Section 1105(a)(14) of title 31, United States Code,
5 is amended by striking "that year" and inserting "each fiscal
6 year in the biennium for which the budget is submitted".

7 (8) Section 1105(a)(16) of title 31, United States Code,
8 is amended by striking "the fiscal year" and inserting "each
9 fiscal year in the biennium".

10 (9) Section 1105(a)(17) of title 31, United States Code,
11 is amended—

12 (A) by striking "the fiscal year following the fiscal
13 year" and inserting "each fiscal year in the biennium
14 following the biennium";

15 (B) by striking "that following fiscal year" and in-
16 serting "each such fiscal year"; and

17 (C) by striking "fiscal year before the fiscal year"
18 and inserting "biennium before the biennium".

19 (10) Section 1105(a)(18) of title 31, United States Code,
20 is amended—

21 (A) by striking "the prior fiscal year" and
22 inserting "each of the 2 most recently completed fiscal
23 years";

24 (B) by striking "for that year" and inserting
25 "with respect to that fiscal year"; and

1 (C) by striking "in that year" and inserting "in
2 that fiscal year".

3 (11) Section 1105(a)(19) of title 31, United States Code,
4 is amended—

5 (A) by striking "the prior fiscal year" and insert-
6 ing "each of the 2 most recently completed fiscal
7 years";

8 (B) by striking "for that year" and inserting
9 "with respect to that fiscal year"; and

10 (C) by striking "in that year" each place it ap-
11 pears and inserting "in that fiscal year".

12 (d) ESTIMATED EXPENDITURES OF LEGISLATIVE AND
13 JUDICIAL BRANCHES.—Section 1105(b) of title 31, United
14 States Code, is amended by striking "each year" and insert-
15 ing "each even-numbered year".

16 (e) RECOMMENDATIONS TO MEET ESTIMATED DEFICI-
17 CIENCIES.—Section 1105(c) of title 31, United States Code,
18 is amended—

19 (1) by striking "fiscal year for" each place it ap-
20 pears and inserting "biennium for";

21 (2) by inserting "or current biennium, as the case
22 may be," after "current fiscal year"; and

23 (3) by striking "that year" and inserting "that
24 period".

1 (f) STATEMENT WITH RESPECT TO CERTAIN
2 CHANGES.—Section 1105(d) of title 31, United States
3 Code, is amended by striking “fiscal year” and inserting
4 “biennium”.

5 (g) CAPITAL INVESTMENT ANALYSIS.—Section
6 1105(e) of title 31, United States Code, is amended by strik-
7 ing “ensuing fiscal year” and inserting “biennium to which
8 such budget relates”.

9 (h) COMPLIANCE WITH MAXIMUM DEFICIT
10 AMOUNT.—Section 1105(f) of title 31, United States Code,
11 is amended—

12 (1) in paragraph (1)—

13 (A) by striking “a fiscal year” and inserting
14 “a biennium”, and

15 (B) by striking “such fiscal year” the first
16 place it appears and inserting “each fiscal year in
17 such biennium”;

18 (2) in paragraph (2) by striking “in the budget so
19 transmitted for any fiscal year” and inserting “for a
20 fiscal year in a budget transmitted pursuant to subsec-
21 tion (a)”;

22 (3) in paragraph (3)—

23 (A) by striking “a fiscal year” and inserting
24 “a biennium”; and

1 (B) by striking "such fiscal year" the first
2 place it appears and inserting "each fiscal year in
3 such biennium".

4 (i) SUPPLEMENTAL BUDGET ESTIMATES AND
5 CHANGES.—(1) Section 1106(a) of title 31, United States
6 Code, is amended—

7 (A) in the matter preceding paragraph (1) by
8 striking "fiscal year" and inserting "biennium";

9 (B) in paragraph (1) by striking "that fiscal year"
10 and inserting "each fiscal year in such biennium";

11 (C) in paragraph (2) by striking "4 fiscal years
12 following the fiscal year" and inserting "2 fiscal years
13 following the biennium";

14 (D) by striking "future fiscal years" in paragraph
15 (3) and inserting "the 2 fiscal years following the bien-
16 nium for which the budget is submitted"; and

17 (E) by striking "fiscal year" in paragraph (3) and
18 inserting "biennium".

19 (2) Section 1106(b) of title 31, United States Code, is
20 amended by—

21 (A) striking "Before July 16 of each year" and
22 inserting "On or before the fifteenth day after the day
23 on which the second session of a Congress convenes";

24 (B) striking "the fiscal year" and inserting "each
25 fiscal year in the biennium"; and

1 (C) striking the last sentence.

2 (j) CURRENT PROGRAMS AND ACTIVITIES ESTI-
3 MATES.—(1) Section 1109(a) of title 31, United States Code,
4 is amended—

5 (A) by striking “On or before the first Monday
6 after January 3 of each year (on or before February 5
7 in 1986)” and inserting “At the same time the budget
8 required by section 1105 is submitted for a biennium”;
9 and

10 (B) by striking “the following fiscal year” and in-
11 serting “each fiscal year of such period”.

12 (2) Section 1109(b) of title 31, United States Code, is
13 amended—

14 (A) by inserting “odd-numbered calendar” after
15 “each”; and

16 (B) by striking “Committees on the Budget of
17 both Houses” and inserting “Joint Committee on the
18 Budget”.

19 (k) YEAR-AHEAD REQUESTS FOR AUTHORIZING LEG-
20 ISLATION.—Section 1110 of title 31, United States Code, is
21 amended—

22 (1) by striking “fiscal year” and inserting “bienni-
23 um (beginning on or after October 1, 1991)”, and

24 (2) by striking “year before the year in which the
25 fiscal year begins” and inserting “second calendar year

1 preceding the calendar year in which the biennium
2 begins".

3 (l) BUDGET INFORMATION ON CONSULTING SERV-
4 ICES.—Section 1114 of title 31, United States Code, is
5 amended—

6 (1) by striking "The" each place it appears and
7 inserting "For each biennium beginning with the bien-
8 nium beginning on October 1, 1991, the"; and

9 (2) by striking "each year" each place it appears.

10 SEC. 5. COMMITTEE ALLOCATIONS.

11 (a) IN GENERAL.—Section 302 is amended to read as
12 follows:

13 "COMMITTEE ALLOCATIONS

14 "SEC. 302. (a) ALLOCATION OF TOTALS.—The joint
15 explanatory statement accompanying a conference report on
16 a joint resolution on the budget shall include an estimated
17 allocation of the appropriate levels of budget outlays, new
18 budget authority, and new credit authority by major function-
19 al categories for each fiscal year in the biennium among each
20 committee of each House which has jurisdiction over laws,
21 bills and resolutions providing such new budget authority, or
22 such credit authority.

23 "(b) REPORTS BY COMMITTEES.—As soon as practica-
24 ble after a joint resolution on the budget for a biennium is
25 agreed to the Committee on Appropriations of each House

1 shall, after consulting with the Committee on Appropriations
2 of the other House—

3 “(1) subdivide among its subcommittees the allo-
4 cation of budget outlays, new budget authority, and
5 new credit authority by major functional categories al-
6 located to it in the joint explanatory statement accom-
7 panying the conference report on such joint resolution;
8 and

9 “(2) further subdivide the amount with respect to
10 each such subcommittee between controllable amounts
11 and all other amounts.

12 “(c) POINT OF ORDER.—It shall not be in order in the
13 House of Representatives or the Senate to consider any bill
14 or resolution, or amendment thereto, providing—

15 “(1) new budget authority for a fiscal year;

16 “(2) new spending authority as described in sec-
17 tion 401(c)(2) for a fiscal year; or

18 “(3) new credit authority for fiscal year;
19 within the jurisdiction of the Committee on Appropriations of
20 either House which has received an appropriate allocation of
21 such authority pursuant to subsection (a) for such fiscal year,
22 unless and until such committee makes the allocation or sub-
23 divisions required by subsection (b), in connection with the
24 most recently agreed to joint resolution on the budget for
25 such fiscal year.

1 “(d) SUBSEQUENT JOINT RESOLUTIONS.—In the case
2 of a joint resolution on the budget for a biennium referred to
3 in section 304, the allocations under subsection (a) and the
4 subdivisions under subsection (b) shall be required only to the
5 extent necessary to take into account revisions made in the
6 most recently agreed to joint resolution on the budget.

7 “(e) ALTERATION OF ALLOCATIONS.—At any time
8 after the Committee on Appropriations of either House re-
9 ports the allocations required to be made under subsection
10 (b), such committee may report to its House an alteration of
11 such allocations. Any alteration of such allocations must be
12 consistent with any actions already taken by its House on
13 legislation within the committee's jurisdiction.

14 “(f) LEGISLATION SUBJECT TO POINT OF ORDER.—At
15 any time after the Congress has completed action on the joint
16 resolution on the budget for a biennium, it shall not be in
17 order in the Senate or the House of Representatives to con-
18 sider any bill or resolution (including a conference report
19 thereon), or any amendment to a bill or resolution, that pro-
20 vides for budget outlays or new budget authority in excess of
21 the appropriate allocation of such outlays or authority by
22 major functional category reported under subsection (a) in
23 connection with such joint resolution.

24 “(g) DETERMINATIONS BY JOINT BUDGET COMMIT-
25 TEE.—For purposes of this section, the levels of new budget

1 authority, spending authority as described in section
2 401(c)(2), outlays, and new credit authority for a fiscal year
3 shall be determined in each House on the basis of estimates
4 made by the chairman or vice chairman for the Joint Com-
5 mittee on the Budget from such House.”.

6 (b) CONFORMING AMENDMENTS.—

7 (1) Section 308(a)(1)(A) is amended by striking
8 “302(b)” and inserting “302(a)”.

9 (2) Section 401(b)(2) is amended by striking
10 “302(b)” and inserting “302(a)”.

11 SEC. 6. AUTOMATIC BUDGET RESOLUTIONS.

12 (a) IN GENERAL.—Title III is amended by adding at
13 the end thereof the following new section:

14 “AUTOMATIC BUDGET RESOLUTION

15 “SEC. 312. (a) CONGRESSIONAL BUDGET OFFICE
16 REPORT.—

17 “(1) On or before May 1 of each odd numbered
18 year, the Director of the Congressional Budget Office
19 shall submit to the Committees on the Budget of the
20 Senate and the House of Representatives a report set-
21 ting forth the levels and amounts that would appear in
22 an automatic budget resolution as described in this
23 section.

24 “(2) No report shall be required if the Congress
25 has adopted a joint resolution on the budget before
26 May 1.

1 “(b) AUTOMATIC BUDGET RESOLUTION.—

2 “(1) If on any May 15 of each odd numbered
3 year, the Congress has not yet adopted a joint budget
4 resolution pursuant to section 301 of the Congressional
5 Budget Act for the biennium beginning October 1 of
6 that year, the Congress shall be deemed for all pur-
7 poses to have adopted a joint budget resolution for the
8 biennium as described in this section.

9 “(2) The joint resolution shall have the following
10 characteristics:

11 “(A) The amount of the deficit for each fiscal
12 year shall equal the maximum deficit amount
13 specified in section 3(7) of the Congressional
14 Budget Act for the appropriate fiscal years.

15 “(B) The levels of Federal revenues for each
16 fiscal year shall equal the current law estimate of
17 total revenues set forth in the budget submitted
18 by the President pursuant to subsection (a) of sec-
19 tion 1105, United States Code.

20 “(C) The levels of total budget outlays for
21 each fiscal year shall equal the difference between
22 revenues and the deficit as required by this
23 section.

24 “(D) Other levels and amounts in the budget
25 resolution shall—

1 “(i) equal those that the Director of the
2 Congressional Budget Office sets forth in his
3 report pursuant to this section;

4 “(ii) be consistent with amounts of the
5 deficits and the levels of Federal revenues
6 required by this section; and

7 “(iii) display the effects by major func-
8 tional category as calculated by the Director
9 of the Congressional Budget Office of reduc-
10 tions in outlays that would be required by
11 part C of the Balanced Budget and Emer-
12 gency Deficit Control Act of 1985 if the Di-
13 rector of the Congressional Budget Office
14 had prepared the report of the Director of
15 the Office of Management and Budget pursu-
16 ant to section 251(a)(2)(B) of that Act using
17 the levels of Federal revenues required by
18 this section.

19 “(2) The chairman and vice chairman of the Joint
20 Committee on the Budget shall submit for the record
21 in their respective Houses a statement of the allocation
22 required by section 302(a) consistent with the joint
23 resolution.”.

1 (b) The table of contents for the Congressional Budget
2 and Impoundment Control Act of 1974 is amended by adding
3 at the end of title III the following new item:

"Sec. 312. Automatic budget resolution."

4 (c) CONFERENCE COMMITTEE.—Section 305 is amend-
5 ed by—

6 (1) striking subsection (d); and

7 (2) redesignating subsection (e) as subsection (d).

8 SEC. 7. CONTINUING APPROPRIATIONS.

9 (a) AMENDMENT TO TITLE 31.—(1) Chapter 13 of title
10 31, United States Code, is amended by inserting after section
11 1310 the following new section:

12 "§ 1311. Continuing appropriations

13 "(a) Except as provided in paragraph (2), if any of the
14 regular appropriation bills for a fiscal year does not become
15 law before the beginning of such fiscal year, there are hereby
16 appropriated, out of any moneys in the Treasury not other-
17 wise appropriated, and out of applicable corporate or other
18 revenues, receipts, and funds, such sums as may be necessary
19 to continue any project or activity, provided for in a regular
20 appropriation Act that has become effective for the preceding
21 fiscal year, at a rate of operations not in excess of the rate of
22 operations provided for such project or activity for such pre-
23 ceding fiscal year in such Act.

24 "(b) Amounts appropriated pursuant to subsection (a)
25 with respect to a fiscal year shall be available for the period

1 beginning with the first day of such period and ending with
2 the earlier of—

3 “(1) the day after the first date on which the reg-
4 ular appropriation bill for the program or activity
5 funded under subsection (a) of this section has become
6 law; or

7 “(2) the last day of such fiscal year.

8 “(c) For purposes of this section, ‘regular appropriation
9 bill’ has the meaning given such term in section 307 of the
10 Congressional Budget Act (2 U.S.C. 638).”.

11 (2) The analysis of chapter 13 of title 31, United
12 States Code, is amended by inserting after the item re-
13 lating to section 1310 the following new item:

“1311 Continuing appropriations.”.

14 (b) AMENDMENT TO THE BALANCED BUDGET AND
15 EMERGENCY DEFICIT CONTROL ACT OF 1985.—Section
16 251(a)(6) of the Balanced Budget and Emergency Deficit
17 Control Act of 1985 (2 U.S.C. 901(a)(6)) is amended by
18 adding at the end thereof the following: “For purposes of
19 subparagraph (B), continuing appropriations made pursuant
20 to section 1311 of title 31, United States Code, shall be
21 treated as continuing appropriations for an entire fiscal
22 year.”.

23 (c) EFFECTIVE DATE.—(1) The amendments made by
24 this section shall apply to fiscal years beginning after Sep-
25 tember 30, 1991.

1 (2) For purposes of determining the application of sec-
2 tion 1311 of title 31, United States Code, to the biennium
3 beginning October 1, 1991, any project or activity provided
4 for in a joint resolution making continuing appropriations for
5 the fiscal year beginning October 1, 1990, shall be treated as
6 having been provided for in a regular appropriation Act.

7 (3) For purposes of determining the rate of operations
8 for a project or activity under section 1311 of title 31, United
9 States Code, for the fiscal year beginning October 1, 1991,
10 the rate of operations for such project or activity in such
11 fiscal year shall equal the rate provided for such project or
12 activity in a regular appropriation Act for the fiscal year be-
13 ginning October 1, 1990 or a joint resolution making continu-
14 ing appropriations for such fiscal year.

15 SEC. 8. SENSE OF THE CONGRESS SUPPORTING A UNIFIED
16 BALANCED BUDGET NOT INCLUDING SOCIAL
17 SECURITY.

18 It is the sense of the Congress that legislation should be
19 enacted before October 1, 1993, establishing fiscal targets
20 beyond those mandated by the Balanced Budget and Emer-
21 gency Deficit Control Act of 1985. The goal of such legisla-
22 tion should be to eliminate, over a period of years, the deficit
23 in that portion of the Federal budget which does not include
24 social security and to produce a unified budget surplus.

2/7/89

DOMENICI-JOHNSTON
CONGRESSIONAL BUDGET REFORM ACT OF 1989

Explanation

1. Joint Committee on the Budget

- a. Replace the Senate and House Budget Committees with a Joint Committee on the Budget.
- b. The Joint Committee would have the nine members from each House -- 5 from the majority and 4 from the minority. The 18 members of the Joint Committee would include the following:
 - (1) the Majority and Minority Leader of the Senate or their designees;
 - (2) the Speaker and Minority Leader of the House or their designees;
 - (3) the Chairmen and Ranking Members of the House and Senate Appropriations Committees;
 - (4) the Chairman and Ranking Members of the Finance and Ways and Means Committees; and
 - (5) six open seats to be filled as follows:
 - (a) the current Chairmen and Ranking Members of Senate and House Budget Committees, with vacancies to be filled by Majority or Minority Leader, as appropriate; and
 - (b) one additional member to be appointed by the Majority Leader of the Senate and the Speaker of the House.
- c. The Chairman and Vice Chairman would be designated from the open seats, one representing each House. The Chairmanship of the Joint Committee would rotate between the Senate and House with each Congress.
- d. The Joint Committee would assume all of the duties and responsibilities of the current Budget Committees.
- e. The Chairman and Vice Chairman would be responsible for scoring legislation in their respective Houses.

2. Budget resolution

- a. Reformulate as a two-year resolution, with planning totals for subsequent two years.
- b. Convert to joint resolution, requiring Presidential signature.

c. Replace current function totals with the following:

- (1) defense discretionary;
- (2) defense entitlement and mandatory;
- (3) domestic discretionary;
- (4) domestic entitlement and mandatory;
- (5) international affairs discretionary;
- (6) international affairs entitlement and mandatory;
- (7) offsetting receipts; and
- (8) net interest.

d. Continue to include revenue totals and deficit projections, which would have to meet Gramm-Rudman-Hollings targets for both the first and second years.

e. Committees would receive allocations by the major functional categories described above. This means committees would receive more than one allocation (e.g. defense discretionary, domestic discretionary, domestic entitlements and mandatory). These would replace the current 302(a) allocations.

f. Change reconciliation instructions to 4 years.

g. Provide that if Congress has not completed action on the budget resolution by May 15:

- (1) the budget resolution will be deemed to be adopted at the GRH baseline level, reduced as if by sequester to meet the deficit targets and that
- (2) these totals would govern all spending legislation until Congress adopted a budget resolution.

h. Provide for (but do not require) a revised budget resolution at the beginning of year 2.

3. Appropriations

- a. Maintain one-year appropriations, but do not preclude two-year bills.
- b. Provide for an automatic continuing resolution at previous year's level if any regular appropriation bill has not been enacted by October 1.

4. Enforcement

- a. Amend Section 302(f) of the Budget Act to make 302(a) totals binding on committees for the two years covered by the budget resolution.

- b. Drop 302(b) allocations for all but the Appropriations Committee.
 - c. Maintain 302(c) point of order requiring Appropriations to file a 302(b) allocation.
 - d. Use 302(b) allocations only for purposes of 302(a) scoring -- i.e. subcommittee total assumed to be at 302(b) level until bill is passed by Senate or House. Drop requirement in Section 302(f) which makes 302(b) allocations binding.
 - e. Revise Section 311 to enforce budget resolution totals (BA, outlays, revenues) for two years.
 - f. Amend Section 303 to provide that it is not in order to consider legislation which would cause the level of entitlement and mandatory spending to be exceeded for the two planning years covered by the resolution.
5. Gramm-Rudman-Hollings targets
- a. Provide that it is the sense of the Congress that legislation should be enacted before October 1, 1993 to eliminate the deficit in that portion of the budget which does not include social security.
6. President's budget
- a. Require the President to submit 2-year budget 15 days after the first day of the first session.
 - b. Require the President to submit budget revisions 15 days after the first day of the second session.

STATEMENT OF SENATOR WENDELL H. FORD
JOINT HEARINGS ON BUDGET REFORM
OCTOBER 18, 1989

I appreciate the opportunity to appear before this joint meeting of the Governmental Affairs and Budget Committee, and I commend Chairman Glenn and Chairman Sasser on their efforts to move budget reform forward. I would hope, Mr. Chairmen, that this hearing will not be the both the beginning and the end of action on budgetary reform for this year. As you know, Senator Roth and I have been working together now for a little over a year on our bipartisan proposal for a two-year budget, S. 29, which is cosponsored by 37 of our colleagues. It is this proposal that I would like to discuss this morning with you.

The benefits of a two-year budget cycle have been widely discussed and reviewed and the idea has generated growing support in recent years, including the endorsement of President Reagan and President Bush. It is not a short-term fix that will eliminate our deficit. But biennial budgeting is a management tool for Congress to use to make our work on the deficit and federal budget more efficient and effective.

I would like to briefly run through an example of how the Ford-Roth Biennial Budget Act would work, using the effective dates proposed in S. 29. Assuming enactment of this proposal in the 101st Congress, the first biennium would commence in roughly two years, on October 1, 1991. This should give us sufficient time to lay the groundwork for the first biennial budget.

Prior to enactment of the first biennial budget, Congress must enact 2-year authorizations for programs to be funded under the biennium. Under our proposal, Congress would enact a two-year budget resolution, two-year appropriation bills, and a two-year reconciliation bill in the First Session of each Congress. The second session of each Congress would be devoted to authorizations and oversight. Therefore, 2-year authorizations would be enacted during the remainder of the 101st Congress, in order to prepare for enactment of the first biennial budget in 1991.

Under the Ford-Roth proposal, in the First Session of the 102nd Congress, President Bush would submit his budget recommendations for the first biennium on the first Monday after January 3, as is current law. Subsequent submittals would be made on the first Monday after January 3 of each odd-numbered year. The President would include budget recommendations for fiscal year 1992 and fiscal year 1993.

On February 15, the Congressional Budget Office would submit its annual economic and budget outlook report to Congress, as is current law. The reports would detail fiscal policy information for FY 92 and FY 93.

On February 25, authorizing committees would submit views and estimates to the Budget Committee for FY 92 and FY 93. This is the same date as current law.

On March 31, the Senate Budget Committee would report a concurrent biennial budget resolution, under the same requirements as current law, except that the resolution will apply to both FY 92 and FY 93.

On April 15, Congress is to complete action on the concurrent biennial budget resolution, as is current law.

On May 15, of the First Session, biennial appropriation bills may be considered in the House, as is current law. Under the Ford-Roth proposal, these biennial appropriation bills would contain separate appropriations for each of fiscal years 92 and 93. Our proposal does not designate specific accounts or programs that must be appropriated for two years. However, we assume that biennial appropriations would cover all Federal appropriations, so that action on the regular 13 appropriation bills would occur only in the First Session of a Congress. We realize that this is one of the more hotly debated elements of our proposal, but we feel that to obtain the efficiency and advantages of a two-year budgetary cycle, biennial appropriations should be applied as broadly as possible.

On June 10, the House is to report the last biennial appropriation bill, as is current law.

On September 30 of the First Session, Congress is to complete action on the biennial appropriation bills, and a budget reconciliation measure which provides savings for FY 92 and FY 93. This is a change from the current law timetable which provides that the Congress complete action on the reconciliation measure by June 10, and the House complete action on annual appropriation bills by June 15.

On October 1, 1991, the first biennium would begin. Subsequent bienniums would begin on October 1 of each odd-numbered year.

It is important to note that all the discipline and procedures of Gramm-Rudman-Hollings are retained by our proposal. Consequently, as under current law, OMB will issue its August snapshot on August 25th for the first fiscal year in the biennium, with any final presidential order issued October 15. The existing Gramm-Rudman-Hollings timetable remains unchanged, and any sequestration order which becomes final in the First Session of a Congress impacts the odd-numbered fiscal year only. The need for a sequester in the even-numbered fiscal year of the biennium would be determined in the Second Session of the Congress. This gives the economy an opportunity to correct itself, or allow Congress the opportunity to take corrective action, before a sequester in the even-numbered fiscal year becomes necessary.

The Second Session of a Congress would be devoted to enacting two-year authorizations, in preparation for the next biennium, and enhanced oversight by Congress and compliance review by the Executive Branch. We believe that with the major budgetary action confined to the First Session of each Congress, our committees will be able to conduct the type of oversight that might have uncovered the fiasco at HUD before it became a national scandal. Committees will also be able to focus on more in-depth review of existing programs, which could result in program changes and reauthorizations that save money or better define Federal priorities, leading to budgetary savings over time.

Our proposal adds a requirement that the Congressional Budget Office submit an additional report to the Budget Committees on May 15 of even-numbered years. This report can include revisions to the report submitted on February 15 of the previous year and is intended to provide the Budget Committees with information needed to monitor the budget in the non-budgetary year of the biennium.

The only other requirement specified in the timetable for the second year of the biennium, is the completion of action on bills and resolutions authorizing new budget authority for the succeeding biennium. However, as is the case under current law, there is no statutory requirement that authorizations be concluded by the last day of the Second Session of a Congress. The timetable is advisory only.

We intentionally did not include a formal procedure in the even-numbered years of the biennium for correcting budgetary fluctuations. We felt that to do so ensured that Congress would simply fall back into an annual budgetary cycle. However, our proposal leaves sufficient safeguards and existing procedures in place to allow Congress to correct unforeseen fluctuations in economic assumptions, or to address national emergencies such as drought relief or the drug crisis.

The May 15 budget report by CBO will alert Congress to potential budgetary problems in the second fiscal year of the biennium. Corrective action can be taken through supplemental appropriation measures, which can include offsetting spending cuts where necessary, revised authorizations, or through the existing Gramm-Rudman-Hollings process. The even-numbered fiscal year must conform to Gramm-Rudman-Hollings targets; and the August 25th snapshot, and subsequent orders will still take place in the second year of the biennium.

While Congress will not have a formal reconciliation and appropriation process with which to avoid a sequester, we will be able to use the existing expedited alternative Congressional procedure for modifying or cancelling a sequester order in the second year of the biennium. Minor fluctuations in the economy should be able to be resolved in this manner in order to avoid a sequestration in the second year of the biennium. As for major economic changes that threaten a recession, or the emergency of a war, existing Gramm-Rudman-Hollings procedures allow for a temporary suspension of the deficit targets.

Most importantly, Congress retains the ability to use the power of the purse, through supplemental appropriations, to encourage action by the Executive Branch in non-budgetary years. Similarly, with time for increased oversight and more thoughtful reauthorizations, authorizing committees will gain leverage to influence policy decisions and program implementation at executive agencies.

Support for moving to a two-year budget cycle is widespread. Last year the Governmental Affairs Committee reported the Ford-Roth proposal by a unanimous vote. But the Budget Committee took no action on the bill, and the 100th Congress ended before floor action could be taken. It is time to act. The Ford-Roth proposal is designed to retain the positive aspects of our current budgetary process, while introducing the efficiency and stability of a two-year cycle. As I have outlined, the Ford-Roth proposal is a simple reform which retains the balance between the Executive and Legislative Branch while giving both branches an enhanced opportunity to do our job.

I commend Chairman Glenn, and my principal coauthor and ranking member, Senator Roth, for their efforts in this regard. I commend Chairman Sasser and Senator Domenici, ranking member and a cosponsor of this legislation, for their cooperation in this effort, and I thank the Committees for allowing me to participate in this important hearing. These two Committees have an historic opportunity to simplify our budgetary process. I urge the members to take this opportunity, and I look forward to working with you.

SENATOR WILLIAM V. ROTH, JR.

JOINT HEARING

COMMITTEE ON GOVERNMENTAL AFFAIRS

COMMITTEE ON THE BUDGET

OCTOBER 18, 1989

Thank you, Mr. Chairman.

I am pleased that the Governmental Affairs Committee and the Budget Committee are combining their efforts in holding this joint hearing today. If any budget process reform is to gain the consensus of the Congress -- whether it be two year budgeting or post - Gramm-Rudman procedures, these two Committees play a fundamental role in ensuring that the ideas have been thoroughly considered and are sound fiscal and economic policy.

Mr. Chairman, despite the efforts of many very able and very committed members, as the events of recent weeks testify, the Congress is failing to abide by its budget timetable. Once again, the fiscal year has already started and the Congress has yet to enact more than one of the regular appropriation bills. We have yet to complete action on a reconciliation measure and the Gramm-Rudman ax has fallen for the third time in almost as many years.

To be sure, some of delay has been caused by partisan differences. While process reform alone will not solve our budget deficit problems, a two year cycle will give Congress and Executive agencies a tool for making the Federal government operate more effectively and allow time for more reasoned and informed budgetary decisions.

In this regard, I must say it is a great pleasure to share today's platform with our distinguished colleague from Kentucky, Senator Ford, who has worked long and hard to promote this idea.

The legislation we introduced on the first day of the Congress, S. 29, has gathered 38 cosponsors. This includes a strong bi-partisan group of Senators -- members of these Committees, the Appropriations Committee, and members of the Senate leadership. S. 29 is the exact same legislation that was reported out of the Governmental Affairs Committee unanimously last year.

A two year budget would create an orderly, predictable process for consideration of spending decisions responsive to policy priorities and improve congressional control over the Federal budget.

Equally important, it would allow sufficient time for the fulfillment by the Congress of its legislative and oversight responsibilities, including the consideration of authorizing legislation, budget resolutions, appropriations bills, and other spending measures.

Instead of loading everything onto a reconciliation bill or the debt limit extension, Congress should consider legislation through the regular legislative process. This would also provide the Office of Management and Budget, and the Executive Branch in general, the opportunity to dedicate more time to management responsibilities and budget planning.

A two year budget would provide greater stability and certainty for financial markets, and Federal, state, and local government agencies with sufficient time to plan for implementation of programs.

Earlier this year, President Bush made clear in his message to the Congress that he supports a biennial budget process. The President was right on target when he said: "I ask the Congress tonight to approve several measures which will make budgeting more sensible. We could save time and improve efficiency by enacting two year budgets." The President stressed biennial budgeting later in the address while advocating "multi-year procurement and two year budgeting" for the military budget. I, of course, agree with the President and urge the two Committees to take action.

Thank you for the opportunity to testify today.

Committee on the Budget
Committee on Governmental Affairs
United States Senate
October 18, 1989

Opening Statement
Senator Nancy Landon Kassebaum

Thank you for providing this opportunity for me to testify in support of S.Res. 131, the committee reform resolution which Senator Inouye and I reintroduced this year. This measure is identical to S.Res. 260, which we introduced in the 100th Congress.

In the year since I last testified on this proposal, I have become more convinced that a fundamental change in the way the Senate makes fiscal policy is essential. I believe our decisions on spending and revenues are becoming so fragmented and inefficient that we are losing our capacity to set national priorities.

As we meet this morning, our circumstances argue strongly for change. The federal budget deficit seems nearly intractable. There is a premium on avoiding the appearance, but not the fact, of increasing the government's indebtedness, as our "off-budget" treatment of the savings and loan bailout illustrates.

In several weeks, the debt limit must be raised to more than three trillion dollars. There is little doubt that what should be a routine matter of fiscal housekeeping will become a legislative crisis--as usual. A number of our colleagues undoubtedly will vote against the debt increase in protest against deficit spending. Others will surely seek to amend the bill with a reduction in capital gains taxes, an expansion of federal assistance for child care, modifications of the budget process itself, and other far-reaching policy changes.

Another clear sign of trouble as we meet this morning is that the federal government is, for the moment, funded by a continuing resolution and is also under a sequester order. We have fallen back on these emergency devices because we could not make timely fiscal decisions.

In doing so, however, we lose the power to allot money among programs of greater or less merit. We lose the chance to weigh revenue options thoughtfully. In fact, we lose the ability to do anything other than affirm the aggregate spending, taxing--and borrowing--decisions of earlier years. That is not making policy.

I believe the routine use of these emergency measures and the routine emergencies engendered by the debt legislation constitute an exceptionally strong case for change. I suggest that what is needed is substantial, institutional reform of the type proposed by myself and Senators Inouye, Daschle, Dodd, Lugar, and McCain.

Revisions in the budget process, of the type you will discuss here, may be fruitful. I strongly support a two-year budget cycle and enhanced rescission and item-veto authority for the President and have cosponsored legislation in these areas by, respectively, Senators Ford and Roth, Dole and McCain, and Coats. I am pleased to see that the senator from New Mexico, Mr. Domenici, and the senator from Louisiana, Mr. Johnston, also advocate a biennial budget and enhanced rescission authority in their omnibus procedural reform measure.

The impact of such useful procedural modifications will be limited, however, unless we also clarify the chain of command for decision making in this chamber and return to our leadership a measure of the power that has been dispersed in recent years.

Mr. Chairman, I realize that the Senate has a long tradition of affording procedural protections to all members. That practice, perhaps more than any other, serves to distinguish the Senate from other legislative bodies. As a member of the minority party, I fully appreciate the importance of such protections.

Some will view the committee reorganization that Senator Inouye and I propose as an untenable encroachment on those protections.

I would respond that, given a workable legislative format, 100 senators can participate in making policy. However, there is no conceivable format under which 100 senators can lead in making policy. The complexities of our current procedures invite their use to advance individual agendas at the expense of our larger responsibilities.

The current Budget Committee, by virtue of the fact that it produces and enforces the congressional budget resolution, has authority to set broad policy directions in the Senate. This task is the proper province of the Senate leadership. For that reason, our resolution would create a new leadership Committee on National Priorities and vest in it the powers of the current Budget Committee. Its members would be the chairmen and ranking members of the Senate legislative committees. This change would make absolutely clear who is responsible for both functions.

In that regard, I am pleased to see that Senators Domenici and Johnston include in their omnibus reform bill a similar leadership committee, in this case composed of both House and Senate leaders.

The second major change that Senator Inouye and I propose would consolidate responsibilities for authorizations and appropriations under individual legislative committees. Authorizing legislation would be reported to the floor with appropriations language included. This would not only speed up the legislative process, it would also reduce the number of opportunities for narrow, special-interest amendments that tie up floor action. The need for repetitious debate and redundant decisions would be greatly reduced.

Our third major change would restructure committee jurisdictions. Standing committees would be reorganized so that they cover, to the greatest extent, a single, broad policy area. This restructuring uses existing committee jurisdictions as a starting point and attempts to enhance the central core of current committee jurisdictions.

For a committee like Armed Services, committee jurisdiction would remain virtually unchanged. For other committees, like Finance, for example, the restructuring would be much more dramatic.

The Committee on Finance would become the Committee on Economic Policy. It would be responsible for all areas of revenue and bonded debt which are now under Finance jurisdiction, as well as all areas relating to banking, monetary policy, coinage, and the Federal Reserve, which are currently under the Banking Committee. Jurisdiction over Social Security, Medicare, and Medicaid would be transferred from Finance to the new Committee on Social Policy--the reconstituted version of the Committee on Labor and Human Resources.

Mr. Chairman, I expect many of my colleagues will view the idea of restructuring Senate committees as politically unrealistic. Certainly, we would each yield back a degree of independence to the new leadership committee. We would all forgo certain prerogatives as committee jurisdictions change. Historically, the Senate simply does not undertake such abrupt restructuring.

I would argue that in consolidating some portion of individual privilege, we would gain enormously as a strengthened legislative body. The Senate would be in a position to reassert our constitutional prerogatives, in the area of policy formulation and oversight.

I also realize that no functional reforms can create the political consensus needed to solve the chronic budgetary crisis that is the focus of this morning's hearing.

We know, however, that Senate procedures are far from neutral in their effect. The process used to seek that consensus should not--as it now does--make the search more difficult.

STATEMENT OF SENATOR J. JAMES EXON

Mr. Chairman, I appreciate the opportunity to share with my colleagues my thoughts on reforming Congressional budget procedures. I applaud the Committees for taking a serious look at this important matter and the attempt to make the Committee process work. Too often in the past, dramatic changes in the nation's budget process have been hatched on the floor of the Senate without the benefit of careful Committee consideration.

As Committee members know, I have introduced three bills aimed at restoring fiscal discipline to the federal budget. These bills include S.J. Res. 22, a proposed Constitutional Amendment to require the President to submit and the Congress to enact a balanced federal budget; S. 354, a bill to effectively grant the President Line Item Veto Authority and S. 532, the Debt Ceiling Reform Act.

I am convinced that the American people are prepared to do their fair share to bring the budget into balance and work to reduce the national debt. This Congress does the nation no favor when it repeatedly conspires or agrees to minimize or mask the true size of the nation's fiscal problem.

The decline of America's economic position and power can be traced directly to the fiscal foolishness of the supply side experiment which, over one Presidency, nearly tripled the national debt and took the United States from being the world's largest lending nation to the world's largest debtor nation. Unless this situation is turned around, our children and grandchildren will be left with a second rate American economy. It all started with the idea you could tax cut America's way to prosperity with goofy supply side economics driven by the Laffer or laughable curve.

Process reform alone will not solve the Nation's economic problems. Political courage is needed most of all. Our courage can only come from a full recognition and admission of the depth and seriousness of the problem. If the budget process is to produce anything, it must produce honesty. Only then will the American people learn of and support the difficult choices the Congress and the President must make to restore fiscal discipline.

Before I begin to describe my budget reform proposals, I would like to express my support for the legislation announced earlier this week by Senators Hollings, Moynihan, Mitchell and Sasser to take Social Security Trust Fund surpluses out of deficit calculations. My only concern is that this proposal does not go far enough. All trust funds surpluses should be taken out of deficit calculations. At the appropriate time I intend to offer an amendment to extend the honesty of the leadership proposal to all federal trust funds. Whether the Social Security Trust Fund, the Medicare Trust Fund or the Airport Trust fund, these reserves are dedicated and collected for a specific purpose and simply should not be used to mask the size of the deficit.

The members of the Senate Budget Committee will recall an amendment I offered during the consideration of the 1990 budget which revealed the true size of the deficit, excluding trust funds and even using the modest OMB economic assumptions to be \$239.7 billion, not the \$99.4 billion produced by traditional accounting measures.

One key problem with our current system is that a balanced federal budget has moved so far out of sight that even the President is not required to present a balanced federal budget. S.J. Res. 22 which is cosponsored by Senator Lloyd Bentsen, would require the President to submit and the Congress to enact a balanced federal budget. A distinguishing feature of this Constitutional Amendment proposal requires that any measure which would cause appropriations to exceed revenues would require a two-thirds vote to become law.

I have also introduced S. 354 with Senators Boren and Shelby as cosponsors which would give the President line item veto authority for continuing appropriations bills for a two year trial period. Granted this proposal gives many of my colleagues heartburn if not stomach convulsions. This limited trial of line item veto authority would give the President and Congress an opportunity to evaluate this authority. If a vetoed item were important enough, the Congress could vote to overturn the President's action. If the Congress sensed that such authority unadvisedly tipped the balance of power, the authority could be rescinded or allowed to sunset after two years. My colleagues should be familiar with this bill as it is very similar to legislation previously offered by Senator Evans of Washington State.

As Governor of the Great State of Nebraska I had the benefit of line item veto authority and a balanced budget constitutional amendment. These measures helped me check the spending and taxing inclinations of the Nebraska State legislature. While it was difficult to produce eight balanced budgets, these provisions created a discipline which brought conflicting sides together.

The central focus of my remarks today, however is S. 532, the Debt Ceiling Reform Act. This legislation was referred to the Budget and Government Affairs

Committee for consideration and is co-sponsored by Senators Heflin, Shelby and Cochran.

This bill would fundamentally reform our method of tracking progress toward deficit reduction. Whether you support the Gramm-Rudman process or not, this legislation would assure honesty, accuracy and true enforcement of Congressional budgets.

Under the Debt Ceiling Reform Act, the statutory debt ceiling would be brought into the budget process. Debt Ceiling legislation consistent with the Congressional budget would be included each year in the budget reconciliation bill. If the federal government should borrow money at a rate faster than contemplated by the Congressional budget (regardless of the bottom line deficit target), any addition debt ceiling authority would require a 3/5ths vote.

To avoid gridlock, the Congress and the President would have to be forthcoming from the first day of the Budget cycle. The Congress would not be held hostage to the economic projections of the Executive branch. The Budget process would be built on fact and not projection. Such a procedure would institute continuous enforcement of the spending, revenue and deficit targets contained in each year's budget. If the Congress is initially honest and sticks to its annual budget or corrects it for changing economic conditions, debt ceiling legislation could be handled in a routine manner, under the limited debate and amendment procedures of reconciliation.

If the federal budget goes off track, a 3/5ths vote would be needed to increase the debt ceiling beyond the level in the reconciliation bill. Other measures to deal with a budget shortfall, such as reductions in spending and/or alterations in revenues would require a simple majority and Presidential signature. Under my proposal, no longer would increasing the national debt be the easiest way for Congress and the President to satisfy their spending appetites.

In essence, the reform would establish for the federal government an annual letter of credit against which the government would use to operate for the coming year. When the credit runs out, only a super majority could extend that line of credit.

Mr. Chairman, the Debt Ceiling Reform Act, most of all would guarantee honesty. The proposal would put a premium on accuracy, reality and prudence. Accounting gimmicks, deficit shifts and optimistic economic assumptions would be of no avail because they would all eventually show up in the debt ceiling. In addition, by including the debt ceiling legislation in the reconciliation process, debt ceiling bills would no longer be a legislative lightning rod to attract all sorts of pork barrel amendments.

The Debt Ceiling Reform Act links the debt ceiling with deficit reduction. It recognizes that the American people are ready for the truth. It is a tough but workable solution to the nation's debt and deficit dilemma.

Mr. Chairman, as the Committee reviews budget reform bills, I ask that these proposals be given serious consideration. I look forward to working with my colleagues to improve the budget process. I welcome your support, comments and suggestions.

I thank the Chairman.

STATEMENT BY SENATOR JOHN HEINZ

Mr. Chairman, members of the Committee, I am pleased to appear before my colleagues to discuss what I believe to be one of the most critical budget issues that we have been faced with in many, many years -- whether to take the Social Security Trust Fund, the Old Age Survivors and Disability Insurance (OASDI) program out of the deficit reduction game.

Let me begin my remarks by quoting one of the great budget analysts of history, William Shakespeare. The bard told us, "Oh what a tangled web we weave, when we practice to deceive." Shakespeare had it right. Only it's the American people we're ensnaring in our artful web of deficit deceit.

We ought to be ashamed of ourselves. In the first place, we're putting off tough choices and making ourselves look good today by spending someone else's money -- their retirement money, no less. Secondly, in the name of phony deficit reduction, we're digging a debt hole so deep that no one, no one, can tell us how we'll ever get out again. Third, we're denying Americans a golden opportunity to buy in the deficit, cut interest rates, and make the stuff of the American dream affordable again.

It is for these reasons that I appear before the Committee today to discuss taking the Social Security program out of the deficit deception game so that we can demonstrate to the public, as well as ourselves, that we are both committed and serious about cutting the federal deficit. Absent the reform that I am proposing, The Social Security Truth In Budgeting Act, both Republicans and Democrats alike will perpetuate the accusations

that the other party is guilty of or responsible for the budget dilemma that we now face.

Frankly, when the public, and more importantly senior citizens, realize how Congress has used the OASDI Trust Fund to mask the actual size of our deficit, we will hear an outcry like we've never heard before. Our recent problems with the Medicare Catastrophic Coverage Act (MCCA) will be no comparison to the grass roots revolt that will occur unless we agree on a bipartisan basis to remove the OASDI Trust Fund from the Gramm-Rudman-Alliance deficit reduction calculations.

Taking Social Security Off-Budget for purposes of the GRH deficit reduction targets is something we can, and must do.

It is important for each of us to remember that both working and retired persons still look to the Social Security program as the foundation for their personal retirement program. If Congress continues a deficit reduction program utilizing Social Security surplus funds to help reduce the deficit, we will further erode public confidence and trust.

Further, allowing the OASDI Trust Fund to be used to mask the true size of our deficit results in Congress distorting the actual financial condition of our federal deficit. For example, as Chart I illustrates, the plain truth is that we have been understating the true size of our federal deficit. We have stated that the deficit has been going down when in fact it has been going up and is actually higher than any of us anticipated. The principal difference between the actual size of the deficit

and what Congress is telling the public the deficit is, is the use of Social Security surplus funds.

It appears to this Senator that Congressional use of OASDI surplus funds has deterred our desire to be fiscally responsible and resulted in an inability to constrain the growth of government. Although each of us has expressed a sincere desire to exercise what we believe to be fiscal responsibility, we have, in fact, fallen woefully short.

The lack of fiscal discipline that we display today will haunt our colleagues who will be guarding these chambers in future years. As Chart II illustrates, by the year 2030, the OASDI Trust Fund balances will have peaked at \$11.8 trillion. In comparison, the number of persons aged 65 and over will have tripled since 1970 to 66 million persons and plateaued at around that same time. The Social Security surplus funds that are borrowed and spent today to mask the federal deficit will be needed more than ever in future years.

It is important that we do not forget why we are building up the trust funds -- it is because we need them to pay for people who are and will be retiring. If we continue to borrow and spend the surplus on other obligations we will not have the financial capacity to meet our obligations.

This problem underscores the need for each of us individually to address whether we want to perpetuate a policy of spending OASDI surplus funds to mask the true size of the federal deficit.

Borrowing from the OASDI surplus causes an additional problem, as Chart 111 illustrates. Net interest does not reflect what the Treasury borrows from Government Trust Funds. As a result, interest payments to the Trust Funds are recorded as revenues to the Treasury, not as costs to the Treasury, which they clearly are. Gross interest is the accurate measure of what Treasury is obligated to pay on all monies it has borrowed.

Even looking at net interest, alone, we will be paying the staggering sum of \$180 billion this year (FY 90), or fully 23% of all general or all non-trust fund revenues received by the Treasury.

As Chart 111 shows, the impact of interest payments is even more startling when you consider the gross interest payments made by the federal government. While net interest is large, it appears to grow very slowly. But, gross interest, which includes interest paid to all government trust funds, including Social Security, and interest on loans, will grow at a pace that can only be described as shocking and alarming.

The presentation of net interest represents another form of deceptive budgeting. We should be showing our total interest payments, including those made because of borrowing from government accounts such as Trust Funds which, by law, must only be spent in their entirety for their intended purpose.

The alternative to spending the Trust fund reserves and incurring huge interest bills for unintended purposes is simply to stop this practice. In addition to keeping faith with the

retirees of today and tomorrow, the scheduled accumulation of Social Security reserves could be used for an extraordinary benefit: we would be able to buy in the entire publicly held portion of the national debt by around the year 2007. The Treasury no longer would be competing with the private sector and borrowing in increasing amounts from abroad, while driving up interest rates at home. The cost of borrowing for a house, an automobile, or starting or expanding a business would shrink dramatically. Instead of being locked into refinancing an ever-increasing burden of government debt, vast amounts of savings would be freed for investment in job creation and industry. Virtually every economist agrees that the United States would be able to enjoy an unparalleled period of prosperity.

Having said all this, the question remaining is where does this leave Congress? What steps should be taken to get us back to focusing on true deficit reduction?

To this Senator, we must begin by agreeing on a bi-partisan basis to remove the Social Security Trust Fund from the deficit deception game and stop using OASDI funds to mask the true size of our federal deficit.

Second, we can and should achieve this objective now in a way that does not make the GRH targets of the next several years any harder to live with. Postponing tough choices will, in the end, make them more painful -- not less.

Third, taking the OASDI Trust Fund out of the deficit reduction calculations will demonstrate to the public that we

will have replaced our deceptive budgeting practice with financial honesty.

Finally, I believe that each of us should be concerned about the consequences of not removing the Social Security Trust Fund from the GRH deficit calculations. If we do not act now, we will have demonstrated to the American public that our lack of fiscal discipline is pervasive, and that we as elected officials are unwilling to make the tough choices the voters put us here to address.

I want to underscore to my colleagues that my proposal, The Social Security Truth In Budgeting Act, S. 1752, addresses the problems that I have set forth this morning and also presents a way to solve this dilemma. If Congress does not address this problem immediately, we will have reneged on our commitment to current and future retirees.

Shakespeare said something else. "Neither a borrower nor a lender be." Well, guess what, we're too late. But if we must be borrowers, at least we can be honest borrowers. All in all, it will be better for all of us.

THE LEGISLATIVE LINE-ITEM VETO

TESTIMONY BY SENATOR DAN COATS BEFORE A JOINT HEARING OF THE
SENATE GOVERNMENTAL AFFAIRS AND BUDGET COMMITTEES

OCTOBER 18, 1989

I WANT TO THANK THE CHAIRMEN AND RANKING MEMBERS OF BOTH THE
GOVERNMENTAL AFFAIRS COMMITTEE AND BUDGET COMMITTEE FOR EXTENDING
ME THE COURTESY OF TESTIFYING TODAY.

AS YOU MAY BE AWARE, SENATOR JOHN MCCAIN AND I HAVE WORKED
TOGETHER WITH 31 OF OUR COLLEAGUES TO FASHION A PIECE OF BUDGET
REFORM, S. 1553, THE LEGISLATIVE LINE-ITEM VETO. IT'S HOUSE
COMPANION, H.R. 3271, WAS INTRODUCED BY REPRESENTATIVES TAUKE AND
PENNY, ALONG WITH 31 COSPONSORS. AND PRESIDENT BUSH HAS ALSO
ENDORSED OUR BILL.

THIS MEASURE IS, IN MANY WAYS, A COMPROMISE VERSION OF
SEVERAL DIFFERENT ENHANCED RESCISSION BILLS NOW PENDING BEFORE
THE SENATE AND HOUSE. SENATOR MCCAIN AND I BELIEVE THAT WE HAVE
CRAFTED A PROPOSAL THAT NOT ONLY WILL HELP FIX THE BROKEN BUDGET
PROCESS, BUT WILL RESOLVE MANY OF THE NAGGING QUESTIONS ASKED
ABOUT PAST RESCISSION AND LINE-ITEM VETO BILLS.

FIRST OF ALL, LET ME DESCRIBE THE BILL'S ESSENTIALS. S. 1553 AMENDS THE BUDGET CONTROL AND IMPOUNDMENT ACT OF 1974 BY ADDING A NEW TITLE. THE CURRENT RESCISSION PROCEDURE IS LEFT IN PLACE, BUT AN IMPROVED ONE IS ADDED, EXPANDING THE PRESIDENT'S RANGE OF OPTIONS.

THIS NEW POWER WILL ALLOW THE PRESIDENT TO RESCIND, IN WHOLE OR IN PART, BUDGET AUTHORITY NOT PREVIOUSLY RESCINDED IN THAT FISCAL YEAR. BUT NOW THESE CUTS WILL GO INTO EFFECT UNLESS CONGRESS PASSES A RESOLUTION OF DISAPPROVAL WITHIN TWENTY DAYS.

THE PRESIDENT WILL HAVE TWO OPPORTUNITIES TO CUT CONGRESSIONAL PORK. FIRST, HE WILL BE ABLE TO SUBMIT RESCISSIONS AT THE BEGINNING OF EACH FISCAL YEAR ALONG WITH HIS BUDGET REQUEST. SECOND, HE WILL BE ABLE TO REVIEW ALL APPROPRIATIONS BILLS, AND IF HE ACTS WITHIN TWENTY DAYS OF SIGNATURE HE CAN SEND UP RESCISSIONS WHICH WILL GO INTO EFFECT UNLESS CONGRESS ACTS TO OVERTURN THEM BY RESOLUTION OF DISAPPROVAL. THAT RESOLUTION CAN BE VETOED BY THE PRESIDENT AND, AS ANY OTHER BILL, WILL REQUIRE A TWO-THIRDS VOTE TO OVERRIDE.

THERE HAVE BEEN SEVERAL MAJOR ARGUMENTS USED AGAINST THE IDEA OF LINE-ITEM VETO AND ENHANCED RESCISSION IN THE PAST -- CENTERING ON THE QUESTIONS OF CONSTITUTIONALITY AND GENERAL WORKABILITY. BUT S. 1553 IS SPECIFICALLY DESIGNED TO ANSWER THESE CONCERNS.

S. 1553 AVOIDS CONSTITUTIONAL DIFFICULTIES BY USING THE CURRENT RESCISSION LAW AS ITS BASE, AND SIMPLY ADDING A REQUIREMENT THAT CONGRESS PASS A RESOLUTION OF DISAPPROVAL TO STOP THE PRESIDENT'S RECOMMENDED RESCISSIONS. THAT RESOLUTION MUST PASS BOTH THE HOUSE AND SENATE AND BE SIGNED BY THE PRESIDENT TO HALT THE CUTS. THIS COULD BE VETOED BY THE PRESIDENT AND A 2/3 VOTE WOULD BE REQUIRED TO OVERRIDE. THIS MINIMAL CONCESSION OF POWER TO THE EXECUTIVE HAS BEEN CLOSELY EXAMINED TO ENSURE IT IS CONSISTENT WITH SUPREME COURT CASELAW ON THE NONDELEGATION DOCTRINE.

IN THE PAST IT HAS BEEN ARGUED THAT THE CONGRESS SHOULD NOT BE FORCED TO ASSERT ITS WILL WITH REGARD TO THE BUDGET MORE THAN ONCE. IF CONGRESS PASSES A BUDGET AND ALL ITS APPROPRIATIONS BILLS, IT HAS DONE ITS JOB, AND DOES NOT WANT TO HAVE TO RE-DO IT. WITH S. 1553, IT IS TRUE THAT CONGRESS WOULD BE FORCED TO REAFFIRM ITS COMMITMENT TO CERTAIN PROGRAMS-- SHOULD THE PRESIDENT DECIDE TO REDUCE OR ELIMINATE FOR THEM. BUT THIS IS NOT MEANINGLESS DELAY, IT IS AN OPPORTUNITY FOR THE PRESIDENT TO EXPRESS PRUDENT SECOND THOUGHTS. IF SPENDING HAS MADE IT THROUGH THE LEGISLATIVE PROCESS AND ONTO THE PRESIDENT'S DESK, IT DOESN'T TAKE MUCH MORE EFFORT FOR THE CONGRESS TO REAFFIRM ITS WILL WITHIN TWENTY DAYS OF THE PRESIDENT'S MESSAGE.

IN THE PAST, SENATORS HAVE QUESTIONED THE VOTING AND DEBATE TIME THAT WOULD BE REQUIRED TO PASS SEPARATE DISAPPROVAL MEASURES. SOME HAVE NOTED THAT SUCH BILLS WOULD BE BOGGED DOWN

IN FILIBUSTER AND AMENDMENT. S. 1553 RESOLVES THOSE ISSUES BY DOING TWO THINGS. FIRST, IT FORCES AN ALL OR NOTHING VOTE--EITHER THE CONGRESS ACCEPTS THE CUTS IN TOTO OR REJECTS THEM. AND SECOND, IT EXPEDITES SENATE FLOOR PROCEDURES TO DISALLOW AMENDMENTS AND LIMIT DEBATE TIME TO TEN HOURS. THIS SHOULD KEEP DEBATE FOCUSED ON MAJOR SPENDING PRIORITIES AND PREVENT UNDUE DELAY ON EITHER THE LEGISLATIVE OR EXECUTIVE END.

S. 1553 GIVES THE PRESIDENT AND CONGRESS TWENTY DAYS EACH TO MAKE THEIR CHOICES AND WORK THEIR WILL. IN THIS RESPECT, IT IS PLAINLY FAIR TO BOTH.

ANOTHER KEY POINT RAISED IN PAST DEBATES IS THE ISSUE OF HOW MUCH MONEY RESCISSIONS COULD REALLY SAVE. IT IS TRUE THAT THE BULK OF THE FEDERAL DEFICIT IS FOUND IN THOSE OUTLAYS RESULTING FROM ENTITLEMENT PROGRAMS-- FUNDS WHICH THE SUPREME COURT HAS RULED CANNOT BE CUT BACK OR WITHHELD WITHOUT LEGISLATIVE CHANGE TO THEIR AUTHORIZING STATUTES. THUS, S. 1553 COULD ONLY ALLOW THE PRESIDENT TO CUT APPROPRIATED ACCOUNTS. THIS IS ONLY PART OF THE BUDGET. BUT IN A BUDGET AS BIG AS OURS, IT IS SIGNIFICANT. PENICILLIN DOESN'T NEED TO CURE CANCER TO BE USEFUL. FOR THE LAST 13 YEARS PRESIDENTS PROPOSED NEARLY \$35 BILLION IN RESCISSIONS, AND THE CONGRESS REJECTED ALL OF THEM THROUGH INACTION.

FINALLY, I'VE HEARD IT ARGUED THAT THIS KIND OF MEASURE WOULD OPEN NEW POSSIBILITIES FOR POLITICAL RETRIBUTION-- EVEN

BLACKMAIL BY THE PRESIDENT. SOME WARN THAT THE PRESIDENT MAY WORK HIS WILL BY THREATENING CUTS OF PET PROJECTS AND PROGRAMS. THIS, OF COURSE, ALREADY OCCURS IN BOTH THE LEGISLATIVE AND EXECUTIVE BRANCHES DURING THE ROUGH AND TUMBLE OF THE APPROPRIATIONS PROCESS. S. 1553 PROVIDES LITTLE OPPORTUNITY THAT DOES NOT ALREADY EXIST. AND ITS OWN REQUIREMENTS WOULD MAKE THIS KIND OF ACTION BY THE EXECUTIVE A BIT TOO OBVIOUS FOR COMFORT.

CONGRESS MADE A MAJOR BUDGET REFORM IN 1974, AND A SIMULTANEOUS TRADE-OFF WITH THE PRESIDENT. WE WERE TO BEGIN TO SET BUDGET TARGETS AND ALIGN OUR SPENDING WITH THOSE NUMBERS ON AN ANNUAL BASIS. THE PRESIDENT FORFEITED HIS PRIOR RIGHT TO IMPOUND FUNDS AT WILL, AND AGREED TO SUBMIT ANNUAL BUDGET RESOLUTIONS WHICH THE CONGRESS COULD USE TO HELP CRAFT ITS SPENDING PRIORITIES. WELL, IT IS CLEAR, 15 YEARS LATER, THAT THE SYSTEM IS BROKEN. WE REGULARLY IGNORE THE PRESIDENT'S BUDGET AND PRONOUNCE IT DEAD ON ARRIVAL BEFORE WE EVEN OPEN THE DOCUMENT. WE PASS HUGE OMNIBUS SPENDING BILLS WITH PET PROJECTS AND OTHER PORK HIDDEN INSIDE, AND THEN DARE THE PRESIDENT TO VETO THEM. GRAMM-RUDMAN AND BUDGET SUMMITS CAN ASSIST IN SETTING THE PARAMETERS, BUT THEY ARE CLEARLY NOT ENOUGH.

WITH A 3 TRILLION DOLLAR DEBT LIMIT LOOMING AND A REVOLUTIONARY RECONCILIATION BILL NOW PENDING WITH THE HOUSE, SEQUESTRATION HAS BEEN LEVIED ON THE ENTIRE GOVERNMENT. THE IMAGE OF PRESIDENT REAGAN'S FAT CONTINUING RESOLUTION STACKED ON THE SPEAKER'S DESK STILL HAUNTS US AS WE SCURRY TO PASS ALL

REMAINING APPROPRIATIONS BILLS, WITH ONLY TWO NOW CLEARED BY THE PRESIDENT. WE ARE IN VIOLATION OF THE BUDGET LAW, SINCE WE HAVE MISSED OR FUDGED MANY OF THE DEADLINES IN THE BUDGET ACT. AGAINST THIS BACKDROP, CAN ANYONE TRULY SAY THAT WE ARE NOT IN NEED OF ANOTHER TOOL TO HELP CUT NEEDLESS SPENDING?

THIS WEEK IS A KEY TIME TO BE THINKING LONG AND HARD ABOUT BUDGET REFORM. A FEW NIGHTS AGO WE ALL WAITED WEARILY WHILE BILLIONS OF DOLLARS IN BUDGET AUTHORITY WERE STRIPPED FROM THE FY'89 RECONCILIATION BILL. IT WAS A STATESMANLIKE CHOICE, AND I HOPE THAT THE HOUSE WILL SUPPORT IT. IN THAT SITUATION, NONE OF US HAD SEEN THIS MAJOR 1600 PAGE DOCUMENT PRIOR TO ITS APPEARANCE ON EACH OF OUR DESKS ON THE FLOOR THE DAY WE WERE SLATED TO BEGIN CONSIDERATION. OUR STAFFS DID NOT OBTAIN COPIES OF THE ITEMS CONTAINED IN THE LEADERSHIP MOTION TO STRIKE UNTIL MINUTES BEFORE WE TOOK FINAL ACTION. I KNOW EVERYONE WAS TRYING TO DO THE BEST THEY COULD WITH WHAT THEY HAD, BUT LET'S ALL BE HONEST: IF CONFERENCE BREAKS DOWN WITH THE HOUSE, WOULDN'T IT BE A GOOD THING IF THE PRESIDENT HAD TWENTY DAYS TO REVIEW THAT BILL AFTER SIGNING IT TO ELIMINATE THE PORK TUCKED INTO ITS PAGES? WOULDN'T IT BE A GOOD THING TO BE HONEST WITH THE TAXPAYERS AND OURSELVES, EITHER ADMITTING OUR DESIRE FOR MORE SPENDING, OR SUPPORTING THE PRESIDENT'S CUTS?

PERHAPS WE'D EVEN SAVE A LITTLE MONEY. AND IF I MAY QUOTE A

RECENT EDITORIAL FROM A NEWSPAPER IN INDIANA, THE VINCENNES SUN-COMMERCIAL OF SEPTEMBER 20TH, IF WE ARE SUCCESSFUL, "THE WINNERS WILL BE THE TAXPAYERS."

I WOULD RESPECTFULLY ASK THAT A CHART BE INCLUDED FOR THE RECORD WHICH DETAILS THE RECENT HISTORY OF RE-ASSIGNMENTS' FATE IN THE CONGRESS.

I APPRECIATE YOUR INTEREST AND TIME.

STATEMENT OF SENATOR HERBERT KOHL
ON BUDGET REFORM PROPOSALS

TESTIMONY AT A JOINT HEARING OF THE SENATE
GOVERNMENTAL AFFAIRS AND BUDGET COMMITTEES

October 18, 1989

Mr. Chairman,

I appreciate your allowing me to testify today.

I would like to discuss three proposals, two that I have sponsored and one that Senator Conrad is developing. One of these bills would restructure our budget format while the other two are aimed at loopholes in our current budget procedure.

I would first like to describe my budget reform package, S. 1572. This bill is largely based on work done by the General Accounting Office. While the GAO may differ with some of the particulars of my proposal, for what it's worth I believe S. 1572 generally represents the way they think we should proceed.

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I was motivated to introduce this bill by two concerns: one was the treatment of Social Security and the other was a lack of investment in our infrastructure and other capital goods.

The budgetary treatment of Social Security has been the focus of several bills and much debate. Some people feel Social Security should be off budget. Others feel that would do violence to our unified budget. I think each side has some merit.

On the one hand, proponents of moving Social Security off budget correctly believe doing so would better highlight the situation in the rest of our budget. We need to show the American public where the source of our deficit is.

But the time has also come to dispel one myth. Moving Social Security off budget does not "protect the trust fund" for future generations. Economically, we can not create a segregated account to which Social Security contributions flow and from which disbursements come. No matter what bookkeeping changes we make, the program's income will continue to flow into the general treasury and be used to finance current operations. There is no way around that situation.

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Nonetheless, I think there are important distinctions in the financing and expenditures of Social Security and some of our other special programs. Those distinctions should be reflected in the way we present the budget.

At the same time, we don't want the way we present the budget to hide the reality of our spending. Sound budgeting requires that a dollar spent on a federal program be counted as a dollar spent in our budget. It certainly would be strange for any business in the private sector to ignore a program that accounts for one fifth of all spending and one quarter of all revenues.

And I should note that this debate concerns more than Social Security. On Monday, I received a call from hospitals who wanted to see Medicare taken off budget along with Social Security. The Post Office is heading for off budget status any day now.

In addition, the pressures on spending have led to a proliferation of off budget "Government Sponsored Enterprises" such as the Resolution Trust Corporation. These agencies are very difficult to distinguish from normal governmental entities. Since we enacted Gramm-Rudman, we have created 5 off-budget government sponsored entities. Only one was created in the previous 13 years. No one knows what's going on in these

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agencies. But we do know that they are exposing the federal government to potentially huge liabilities.

I believe my bill, S. 1572, offers the best way to address these concerns. It recognizes Social Security's special status while it maintains the integrity of the unified budget. My bill provides as much protection for Social Security as the other proposals you are considering without creating all the problems of off budget status.

Table 1 in my testimony and the chart to my right describe how the budget would be presented.

Under my bill, all government spending is divided into three simple categories: trust funds, enterprise accounts and general spending. Each of these categories is then divided between operating and capital spending.

The Trust Fund category includes all receipts and expenditures in programs we have labelled as "trust funds." The list of programs is given in Table 2 of my testimony.

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The Enterprise category includes programs that are designed to be largely self-sufficient. The list of programs included in that category is given in Table 3.

General spending is a residual account, including all spending programs not listed in the Enterprise or the Trust categories.

This method preserves the unified budget by including all programs in one of these three categories. Yet, it also allows important distinctions between the programs to be reflected in the budget.

As the chart -- which is reproduced in Table 1 -- makes clear, the deficit is traceable immediately to our general accounts. The surplus in our trust accounts has cross subsidized both the enterprise and the general spending accounts.

This should stop. My bill would stop it by setting deficit reduction targets for the General and the Enterprise accounts. The exact path of the deficit reduction targets is less important than establishing targets for the proper accounts. We can allow the surplus to grow in the Trust Funds while forcing more responsible spending policies in the other categories.

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This should lead to a unified budget surplus and that is what my bill would also mandate. Targets would be placed on the unified deficit to insure that the overall budget achieves that surplus. This will protect us from abusing the trust accounts by ballooning spending there beyond that called for under present law.

The capital budgeting portion of my proposal is very important. Nonetheless, I still have several unresolved questions about these issues. I therefore think it would be reasonable to phase in a capital budget over the next few years as we untangle some of the issues involved. GAO is currently at work on most of those questions.

In addition to this effort to restructure the budget, I would also like to mention two other proposals designed to reform our current budget procedures.

Two large loopholes have enabled us to evade deficit reduction. We can use unrealistic economic assumptions to understate the projected deficit and we can shift spending into the current year to avoid inflating the deficit for the next year. Everyone here is all too familiar with these problems.

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S. 1162, a bill I introduced and now cosponsored by Senators Conrad, Robb and Nunn, is aimed at the economic assumptions loophole. I just don't think economic and technical assumptions should be the subject of negotiations. Basically, this bill would take those issues off the negotiating table.

Under the bill, Congress would be bound to the economic and technical assumptions of CBO. While the Administration would not be directly bound, they would be unable to manipulate economic assumptions in negotiations with Congress. Any agreement Congress and the White House reaches would have to pass muster under the CBO assumptions. Any agreement unable to do so would face a 60 vote point of order here in Congress. I am not claiming that CBO is infallible or even necessarily better than OMB; I am, however, asserting that CBO will be free of the "taint" of political manipulation.

Mandating CBO economic assumptions should help us focus on real deficit reduction and away from smoke and mirrors.

Finally, Senator Conrad is developing a bill which he calls a "look back" proposal. Basically, the bill would prevent any excess deficit from escaping punishment. As we approach the end of the fiscal year, estimates are made that show the actual

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deficit. Usually, that deficit is far above the target for that fiscal year. Under the Conrad bill, the excess would be added to the amount of deficit reduction required for the next fiscal year. Under his bill, we could no longer shovel spending into the end of a fiscal year to escape pressures of the Gramm-Rudman targets.

I want to thank the chair for holding this hearing. I am sure we will all hear more about all of these proposals as debate over the debt ceiling nears.

GAO Restructured Budget for Fiscal Year 1988

TABLE 1

	General	Enterprise	Trust	Unified budget
	(Dollars in billions)			
Operating surplus/ deficit (-)	\$ - 248	\$ - 7	\$124	\$ - 131
Capital financing requirements	- 23	- 3	2	- 24
Total	\$ - 271	\$ - 10	\$126	\$ - 155

TRUST FUNDS

Characteristics

--Under current budget concepts, most accounts funded by earmarked receipts and designated in law as a "trust" fund.

Examples of Trust Funds

	Outlays FY 1988 (Dollars in billions)
Federal Old-age and Survivors Insurance Trust Fund	\$197
Federal Hospital Insurance Trust Fund	88
Civil Service Retirement and Disability Trust Fund	28
Federal Disability Insurance Trust Fund	22
Military Retirement Fund	19
Unemployment Trust Fund	18
Highway Trust Fund	15
Railroad Social Security Equivalent Benefit Account	4
Rail Industry Pension Fund	2
Airport and Airway Trust Fund	2
Other	<u>14</u>
Total	<u>\$409</u>

ENTERPRISE ACTIVITIES**Characteristics**

- Business-type activity undertaken by the government
- Generates receipts from selling products or services to the general public
- Intended to be substantially self-financing

Examples of Enterprise Activities

	Outlays FY 1988 (Dollars in Billions)
Postal Service	\$36
Federal Savings and Loan Insurance Corporation Fund	16
Federal Deposit Insurance Corporation	7
Federal Housing Administration	7
Tennessee Valley Authority	6
Rural Electrification and Telephone Revolving Fund	3
Bonneville Power Administration Fund	3
Export-Import Bank of the United States	2
Uranium Supply and Enrichment Activities	1
Other	<u>2</u>
Total	<u>\$83</u>

TABLE

OPERATING COMPONENT

Operating Revenues

- General taxes
- Payroll and other earmarked taxes (except those earmarked for capital investments)
- Fees, royalties, and other earnings (except those earmarked for capital investments)

Operating Expenses

- Costs of the government's operations

Total Operating Expenses

	Outlays FY 1988 (Dollars in billions)
Civil functions	\$711
Defense functions	227
Interest on debt	155
Asset consumption charge	50
Credit subsidies	<u>10</u>
Total	<u>\$1,153</u>

TABLE

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CAPITAL COMPONENT**Capital Revenues**

- Taxes, user fees, or other revenue earmarked to finance physical capital investments
- Most loan principal repayments

Capital Investments

Direct investments:

- Tangible assets providing benefits for more than 2 years and costing \$100,000 or more
- Financial assets, such as bonds, notes, and other securities held by the government

Indirect investments:

- Aid to state and local governments for construction of physical assets in the public domain

Major Capital Investment Programs

	Outlays FY 1988 (Dollars in billions)
Direct investments:	
Civil:	
Financial assets	\$ 33
Energy	2
Water resource projects	2
NASA, nondefense	2
Postal Service	2
Other	6
Subtotal	\$ <u>47</u>
Defense:	
Procurement	62
Military construction	6
Atomic energy defense activities	2
Other	1
Subtotal	\$ <u>71</u>
Indirect investments:	
Civil:	
Highways	14
Pollution control & abatement	3
Mass transportation	2
Other	3
Subtotal	\$ <u>22</u>
Total	\$ <u>140</u>

TABLE

Restructured Federal Budget
for Fiscal Year 1988

Total General Trust Enterprise
----- (dollars in billions) -----

Operating Budget

Revenues				
General taxes	\$ 520	\$ 519	\$ 1	\$ 0
Payroll and other earmarked taxes	335	0	335	0
Fees, royalties, and other earnings	158	66	24	68
Total revenues	<u>1013</u>	<u>585</u>	<u>360</u>	<u>68</u>
Expenses				
Civil-other	492	245	172	75
Defense	227	227	0	0
Social security	219	0	219	0
Interest on debt	155	155	0	0
Asset consumption charge	50	50	0	0
Pension liabilities	0	26	(26)	0
Credit subsidy costs	10	10	0	0
Total expenses	<u>1153</u>	<u>713</u>	<u>365</u>	<u>75</u>
Surplus/deficit(-) before interfund transfers	-140	-128	-5	-7
Interfund transfers	-2	-131	129	0
Surplus/deficit(-)	<u>-142</u>	<u>-259</u>	<u>124</u>	<u>-7</u>

Capital Budget

Revenues	65	41	19	5
Investments				
Civil	69	42	19	8
Defense	71	71	0	0
Asset consumption charge	-50	-50	0	0
Credit subsidy costs	-10	-10	0	0
Net investments	<u>80</u>	<u>53</u>	<u>19</u>	<u>8</u>
Capital financing requirements before interfund transfers	-15	-12	0	-3
Interfund transfers	2	0	2	0
Capital financing requirements	<u>-13</u>	<u>-12</u>	<u>2</u>	<u>-3</u>
Unified budget financing requirements	<u>\$-155</u>	<u>\$-271</u>	<u>\$126</u>	<u>\$-10</u>

TABLE

-6-

RESTRUCTURED BUDGET RESULTS OF THE U.S. GOVERNMENT
FOR FISCAL YEAR 1988

	Unified Budget		Operating Budget		Capital Budget	
	Total	Transfer	General	Trusts	General	Trusts
	in billions					
	1987	1988	1987	1988	1987	1988
Revenues						
Income taxes	518.5	518.2	518.5	518.2	518.5	518.2
Payroll and other earmarked taxes	331.4	331.2	331.4	331.2	331.4	331.2
Fees, royalties, and other earnings	255.2	255.1	255.2	255.1	255.2	255.1
Total revenues	1,071.2	1,071.2	1,071.2	1,071.2	1,071.2	1,071.2
Expenditures and investments						
Interest on U.S. Treasury Securities	218.4	218.3	218.4	218.3	218.4	218.3
Social Security	135.5	135.5	135.5	135.5	135.5	135.5
Income security	87.7	87.7	87.7	87.7	87.7	87.7
Medicare	77.6	77.6	77.6	77.6	77.6	77.6
Commerce and Housing	47.4	47.4	47.4	47.4	47.4	47.4
Health	47.2	47.2	47.2	47.2	47.2	47.2
Agriculture	173.9	173.9	173.9	173.9	173.9	173.9
Other	179.7	179.7	179.7	179.7	179.7	179.7
Total - all functions	791.4	791.4	791.4	791.4	791.4	791.4
Interest on debt	288.3	288.3	288.3	288.3	288.3	288.3
Additional operating costs not included in operating budget	194.8	194.8	194.8	194.8	194.8	194.8
Parasitic operating costs not included in operating budget	0	0	0	0	0	0
Parasitic operating costs not included in operating budget	0	0	0	0	0	0
Direct loans liability	0	0	0	0	0	0
Guaranteed loans liability	0	0	0	0	0	0
Total expenditures and investments	1,272.8	1,272.8	1,272.8	1,272.8	1,272.8	1,272.8
Financing Requirements						
Operating Surplus/Deficit or Capital Financing Requirements	-195.1	-195.1	-195.1	-195.1	-195.1	-195.1
Net new loan transfers	0	0	0	0	0	0
Total financing requirements	-195.1	-195.1	-195.1	-195.1	-195.1	-195.1
Unified Budget Financing Requirements	-195.1	-195.1	-195.1	-195.1	-195.1	-195.1
Operating Surplus/Deficit or Capital Financing Requirements	-195.1	-195.1	-195.1	-195.1	-195.1	-195.1
Net new loan transfers	0	0	0	0	0	0
Total financing requirements	-195.1	-195.1	-195.1	-195.1	-195.1	-195.1

These costs would otherwise be distributed to the functions responsible for the costs.

According to the Office of Personnel Management analysis, this is the difference between actual fiscal year 1987 contributions to the civil service retirement and disability fund and the amount necessary to finance the present liability for future pension benefits and to amortize over 40 years the fund's unfunded liability. Fiscal year 1987 data is the most current available.

Note: This table does not include research results, such as agricultural commodities in COMEX commodity certificate program, used to finance a program.

[From the Washington Post, Oct. 26, 1989]

DEFICIT FUTURE AT ISSUE IN SOCIAL SECURITY DEBATE

(By Paul Blustein and Tom Kenworthy)

At first glance, it looks like an arcane development that only an accountant would find exciting.

Top lawmakers in both parties are pressing for legislation that would exclude the Social Security program from the calculation of the federal budget deficit. The legislation is essential, they contend, because the deficit's size is being obscured by the massive tax revenues that are flowing into the Social Security trust fund to help build reserves for the future.

"We need to get some realism in the deficit picture, so we'll all sober up," said Sen. Ernest F. Hollings (D-S.C.).

But at stake is much more than a rejiggering of numbers in the federal ledger. In the view of many budget experts, the proposal to remove Social Security from the deficit calculation could have far-reaching, perhaps unintended implications, both for the retirement program itself and for the deficit outlook.

At worst, some experts fear, the accounting change could substantially diminish whatever prospect remains for a major, long-term deficit-reduction compromise that goes beyond the temporary fixes Congress and the White House have reached in recent years.

Once Social Security no longer counts in the deficit, it will effectively be taken off the budget bargaining table. "This is not an accounting issue; this is a serious matter," said Stephen E. Bell, the Washington representative of Salomon Brothers and former staff director of the Senate Budget Committee.

For years, Bell and other experts have contended that any significant deficit accord would require three main elements—defense cuts, higher taxes and reductions in entitlement programs such as Social Security. Taking Social Security—which accounts for more than 20 percent of federal outlays—completely out of bounds "would almost ensure that you can't get any kind of meaningful deficit reduction," Bell said.

The debate has arisen because of an important change in the Social Security system that was enacted in 1983. At that time, Congress decided that Social Security ought to begin accumulating huge surpluses in its trust fund to cover the cost of the baby-boom generation's retirement early in the next century. Payroll tax rates were set high enough to ensure that tens of billions of dollars more would flow into the trust fund each year than was needed to pay current benefits.

But because the government is running a budget deficit, the Social Security surpluses—instead of being saved for the baby-boomers' retirement—are effectively being used now to help pay for government programs ranging from the military to farm subsidies to education grants. As a result, economists of both the left and the right agree, the rapidly growing surpluses, which are expected to total \$68 billion in the current fiscal year, are making the overall budget deficit appear artificially low.

"As long as the deficit looks as if it might be coming down, people say there is nothing to worry about," said Sen. Daniel P. Moynihan (D-N.Y.). Once ordinary citizens and politicians realize that the deficit would swell to the \$200 billion range if the Social Security surplus were excluded, the prospects for deficit reduction would improve, Moynihan contends.

Accordingly, Moynihan, backed by the Democratic leadership in the House and the Senate, has introduced legislation that would redefine the deficit to exclude Social Security, while simultaneously raising the annual deficit targets set by the Gramm-Rudman-Hollings law. Similar legislation has been introduced by Sen. Phil Gramm (R-Tex.), one of the budget law's authors, and other lawmakers.

But a number of analysts and staff members of Capitol Hill say legislation such as Moynihan's or Gramm's could have the opposite effect from its stated intention.

"Many people feel that deficit reduction has to include as an important component a reduction in middle-class entitlements," said Robert D. Reischauer, director of the non-partisan Congressional Budget Office. And politicians would have "very little incentive" to trim the biggest entitlement program of all—Social Security—if it has no deficit impact, Reischauer said. There would also be little incentive to adopt another measure widely favored by budget experts—increasing taxes on Social Security benefits, he noted.

Taking Social Security out of the deficit equation could also make reaching a comprehensive agreement more difficult because Congress traditionally treats all feder-

al retirement programs equally, said Rep. Leon E. Panetta (D-Calif.), chairman of the House Budget Committee.

It would be though, Panetta said, for Congress to protect Social Security from a deficit reduction plan "and then not treat other retirement programs in the same manner."

To be sure, cutting Social Security is politically hazardous regardless of the accounting rules involved. But critics of the Moynihan and Gramm bills assert that the proposed legislation could push politicians even further away from fiscal prudence by increasing the temptation for Congress to increase Social Security benefits.

"It would be 'costless' to increase Social Security benefits" if doing so had no impact on the deficit, said John Cogan, a budget expert at the Hoover Institution in Palo Alto, Calif.

Cogan said he believes Congress would easily override parliamentary obstacles that some lawmakers have proposed to prevent any raid on the trust fund. "What's the last vote on Social Security that wasn't 100 to nothing in the Senate?" he asked.

Terry Sanford

United States Senator
for North Carolina

News Release

HEARING ON BUDGET REFORM
BEFORE THE SENATE COMMITTEES ON GOVERNMENT AFFAIRS AND BUDGET
OCTOBER 18, 1989

THE HONEST BUDGET ACT

The hearing this morning is very timely. We have just approved a reconciliation measure that results in a claimed deficit level below \$110 billion. Once again we are telling the American public that we are reducing our deficits and will soon eliminate them altogether. And we are doing this within a few short weeks of increasing the debt limit for the second time this year.

If we are reducing our deficits, why then are we increasing the debt limit? If we really are on a path to deficit elimination, we should be lowering the debt ceiling, not raising it again. My call is for an honest budget.

I have several charts to illustrate my point. During the 1980's we have moved from a deficit just below \$1 trillion to one projected to reach \$4 trillion in Fiscal Year 1993, when Gramm-Rudman-Hollings targets are scheduled to reach zero.

The second chart illustrates the cover-up. In Fiscal Year 1988 we claimed a deficit, under Gramm-Rudman-Hollings, of \$155 billion, yet we actually increased the debt that year by \$255 billion. That leaves \$100 billion in "creative accounting" tricks that I believe should have been included in our deficit figure for 1988. The deficit in 1988 should have been \$255 billion, not \$155 billion.

If you look at the Fiscal Year 1993 projection, you will see that the deficit cover-up grows dramatically, to over \$300 billion! The Congressional Budget Office estimates that our debt will increase by \$307 billion in 1993, the year Gramm-Rudman-Hollings is scheduled to reach zero.

Now I appreciate that the CBO figure of \$307 billion is a baseline projection derived from current services. This figure does not reflect deficit reduction activities between now and 1993, so I will adjust that number. OMB claims, for the purpose of sequestration, that our deficit for Fiscal Year 1990 is \$116 billion. If you subtract that from the projected debt increase of \$307 billion, the real deficit in 1993, as I would define it, will still be nearly \$200 billion, not zero.

The cover-up involves primarily the following: the use of trust fund surpluses; the use of phony assumptions, like the sale of AMTRAK; and the use of net interest figures instead of gross interest figures.

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We may never be able to eliminate the use of phony assumptions, but we should continue to try. We can insist on the use of gross, bottom line figures, and this brings us much closer to honest deficit numbers, with or without phony assumptions.

We can no longer afford to continue the deceitful budget practices of the past that have already weakened our future. More than ever before, the United States of America is living on borrowed time. The cover-up must stop now!

This brings us to the purpose of the hearing today-- process reform. I am a Senator who believes that budget process reform is needed. However, I understand that process reform alone will not get us out of the very deep deficit pit in which we now find ourselves. We will only accomplish this with proper leadership from the White House combined with Congressional determination to make the difficult choices that will work.

Process reform can facilitate action by laying the necessary groundwork. It can provide the plan to help us make those hard choices honestly, without games and gimmicks. S.101 proposes to do just this.

"The Balanced Budget and Debt Reduction Act of 1989" has been crafted to require full disclosure of deficit defined as annual increase in the public debt subject to the limit. S.101 will not guarantee success, but it will lay the right foundation, promoting needed action to eliminate our annual deficits, and facilitate substantial reductions in the Federal debt.

S.101 is quite simple. It divides the unified Federal budget into three accounts: the Retirement Account, the Operating Account, and the Debt and Interest Account. The results could be quite profound.

The Retirement Account includes receipts and expenditures for Social Security and other Federal retirement programs, including transfers of employer contributions from the Operating Account. This also includes interest paid by Treasury to these trust funds for securities held in trust. The budget process now, astoundingly, allows Treasury to count this payment as a receipt which, of course, allows for a net interest figure substantially smaller than the bottom line, gross interest figure.

The Operating Account includes all receipts and expenditures of Federal entities other than those in the two other accounts. The Operating Account reflects current receipts and current appropriations, and S.101 requires that this column must be balanced, or subject to a point of order and sequestration.

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Finally, the Debt and Interest Account includes changes in the public debt and interest on the public debt, and defines deficit as simply the increase in the debt. Interest displayed here includes payments to the retirement trust funds and other accounts, and cannot be treated as income to mask the total amount of (gross) interest actually paid.

The Debt and Interest Account also establishes a schedule of deficit and debt reduction targets. It creates a trust fund for the reduction of the public debt subject to the limit, and provides for enactment of dedicated debt-reduction taxes, if called for by the President. Any new revenue must be solely dedicated to the reduction of deficit and debt through this trust fund.

This is my plan. When you examine the numbers in each account, the bottom line numbers in each account, our problem becomes clear. Our problem is the interest we are paying to service our mounting debt. The Operating Account is not that much out of balance now.

My final chart shows each account. Using Fiscal Year 1988 budget figures--figures we know to be true--I can further illustrate how the budget would be laid out under S.101.

The Retirement Account shows a surplus of \$88 billion that cannot be used to offset our deficit for that year.

The Operating Account breaks down into receipts and outlays relevant to the that account. In Fiscal Year 1988 we received \$791 billion in taxes, other receipts and offsetting collections. We spent \$818 billion. This outlay figure includes:

- \$241 billion for entitlements
- \$308 billion for defense
- \$269 billion for other government purposes

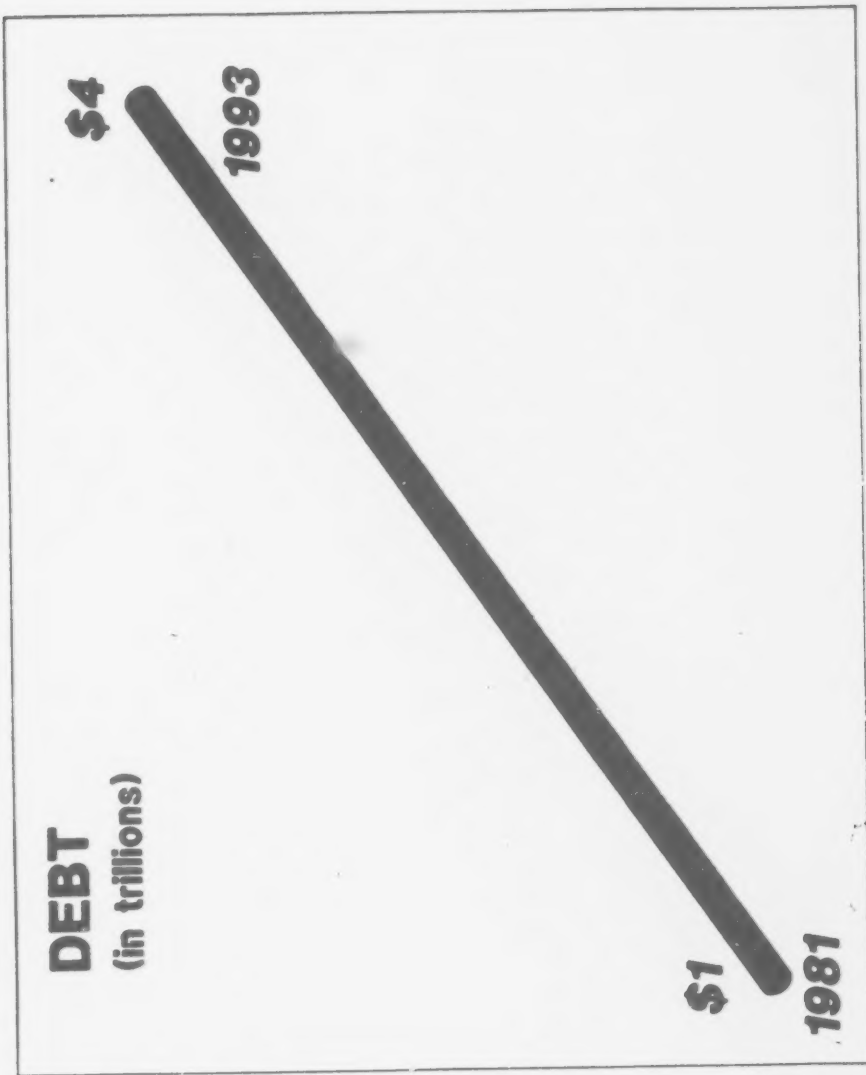
This leaves us with a \$27 billion operating deficit in 1988. If S.101 were enacted it would require the elimination of that \$27 billion deficit.

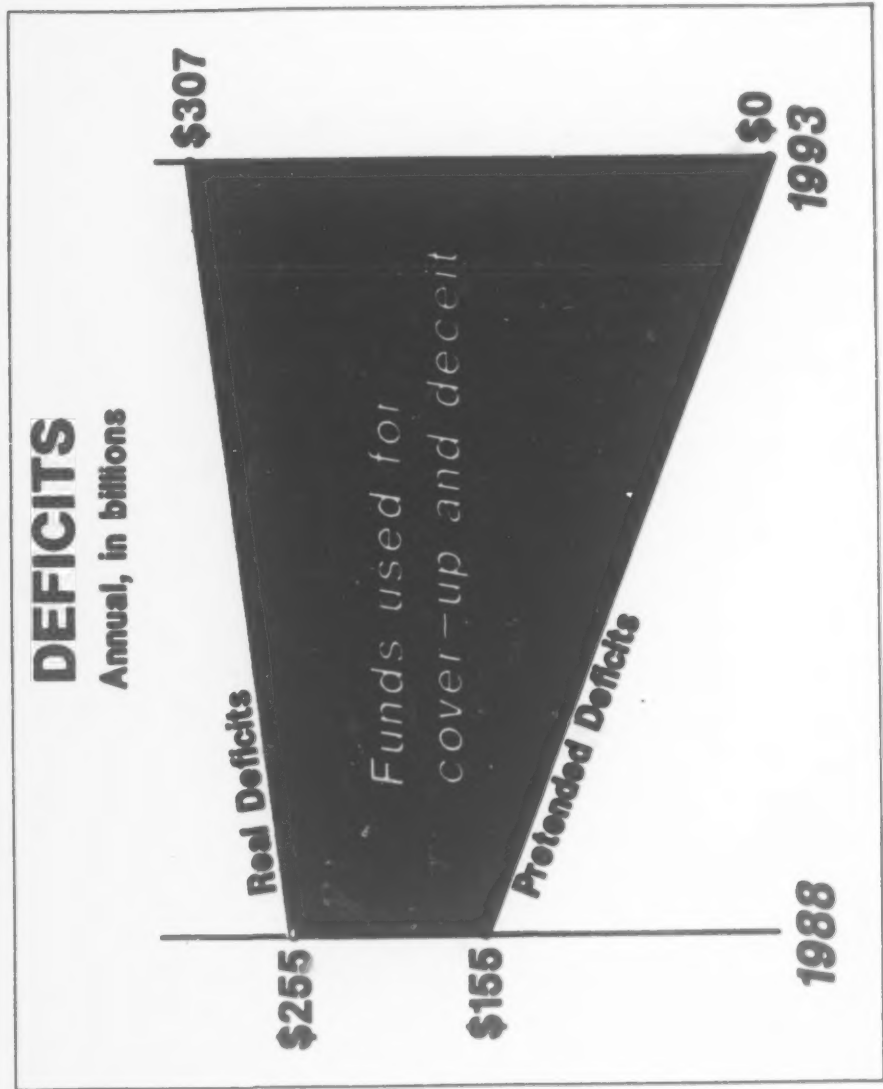
Finally, we get to the Debt and Interest Account where we can more clearly see our problem. In 1988 we paid \$215 billion in interest just to service the debt. And we increased the debt \$255 billion which should have been our deficit, not \$155 billion as we claimed.

The Operating Account is manageable. The interest we are paying to service the debt is out of control. If we continue to ignore this, we surely will not have much of a future at all.

Again, this is a plan for debt reduction. The only way this plan can work is with strong leadership from the White House and the commitment from Congress to eliminate our real deficits and reduce the debt to a more acceptable level.

The way to begin is for all to agree that we will start with an honest budget.





S. 101 REQUIRES STRUCTURE TO DISPLAY AN HONEST BUDGET			
RETIREMENT TO SEPERATE AND PROTECT SOCIAL SECURITY AND OTHER RETIREMENT FUNDS	OPERATIONS TO SHOW CLEARLY WHICH ITEMS ARE SUBJECT TO BUDGET CUTS OR INCREASES	DEFICIT AND DEBT TO REVEAL AND PROVIDE FOR REDUCTION OF THE REAL DEFICIT AND DEBT	
CONTRIBUTIONS TO RETIREMENT ACCOUNTS SOCIAL SECURITY TAXES OTHER RECEIPTS OUTLAYS TO BENEFICIARIES BALANCE TO TRUST FUNDS TRUST FUNDS FOR FUTURE	PERSONAL INCOME TAXES CORPORATE INCOME TAXES EXCISE TAXES OTHER REVENUES ENTITLEMENTS DEFENSE ALL OTHER GOVERNMENT BALANCE "B" (plus or minus)	PUBLIC DEBT SUBJECT TO LIMIT BEGINNING FY GROSS INTEREST BALANCE "B" (plus or minus) PUBLIC DEBT SUBJECT TO LIMIT ENDING FY DEFICIT (Increase in debt)	1. Provide schedule for reduction 2. Allows for DEDICATED DEBT REDUCTION TAXES if proposed by President
Not to be used in any manner to conceal other budget figures	Requires that this Part be balanced; (Subject to point of order.)		
Budget can be UNIFIED and CONSOLIDATED as appropriate.			

THE LOOK BACK
STATEMENT
SENATOR KENT CONRAD

The Need for Action

The need for action is clear. We have engaged in a policy of debt, deficit and decline over the last decade. The evidence is clear. We've tripled the national debt. We have multiplied the trade deficit fourfold. We have gone from being the largest creditor nation in the world to being the largest debtor nation. Our national savings rate has declined and continues to be lower than our economic competitors. This is not a policy that can be sustained.

When you examine how we have been able to reduce the unified budget deficit, it is very clear that we've relied on the growth in Social Security Trust Fund surpluses.

I am a cosponsor of proposals to take Social Security out of the calculations of the deficit. I believe that action will move us closer to fiscal responsibility. I also support other proposals to close loopholes in our current budget process.

The Look Back Proposal

I will be introducing one such proposal -- a bill that would amend Gramm-Rudman to close one of the loopholes that Congress has taken full advantage of recently -- increasing funding in the current fiscal year because it doesn't "cost" anything. We have done it through payroll shifts; we did it with the savings and loan bailout; we'll do it at the next opportunity unless there is a tangible consequence for our action.

Gramm-Rudman, as it is currently drafted, keeps Congress focused on the upcoming fiscal year. We focus on meeting one target at a time. We'll do almost anything to satisfy that one target - at the expense of making lasting policy choices. We continue to create new accounting gimmicks. Once OMB decides that we've satisfied the requirement and we'll meet the deficit target for the next fiscal year Congress then proceeds to shift costs into that fiscal year because it doesn't count against Gramm-Rudman! We've already met the target! Well, no matter how we try to fool ourselves, it DOES count.

In my opinion, the only way we are going to tackle the budget deficit and get it behind us, is to make policy choices that have lasting effects into the future. We get further behind when we choose to make one time shifts in payments, sell the

governments' assets and make other accounting adjustments that allow us to meet the goal for one year. While they provide us with some savings for the current year, the result is an increase in our future costs. We've got to move away from accounting gimmicks and make policy choices.

This bill would reduce the incentive to shift funding into the current year by providing a real consequence for that action: if Congress enacted legislation during the fiscal year that increased the deficit -- and did not provide an offset -- that action runs the risk of causing sequestration.

For example, this August, OMB determined that the deficit for fiscal year 1990 would be \$126 billion. The way we operate now, once Congress passes the legislation necessary to get back to the target, the work of meeting Gramm-Rudman is completed for the year. This year, for example, the budget reconciliation bill will bring us back to the necessary range to meet Gramm-Rudman requirements. Under this bill, however, if future Congressional action pushed the deficit over the target (by more than the \$10 billion cushion) again, a sequestration would be required to bring the deficit back down to the cushion level.

This bill would not add another sequestration date -- all the changes tie into our current process timetable. It wouldn't extend the time we discuss the budget. If we actually made

lasting policy choices -- as painful as they would be -- we may actually reduce the time necessary to discuss budget action.

Also, under this bill Congress would be required to use CBO economic and technical assumptions throughout the process. I believe that will go a long way to bring some honesty to our work.

I have consulted with the Congressional Budget Office in drafting this bill and have incorporated its suggestions. On CBO advice, all action would be scored on the same forecast throughout the year -- all changes to the budget for this year would be scored (for Gramm-Rudman purposes) on the forecast that OMB used in August when it determined that the deficit level for fiscal year 1990. Congress would be working under the same set of rules the entire time. There would be no shifting ground to deter us -- or to hide behind.

I offer this proposal as a constructive modification on the budget process, not as a panacea. Former CBO director Rudy Penner once said, "The process isn't the problem. The problem is the problem." If we can tighten the process to force Congress to look at the problem rather than evade it, I believe we'll be closer to a solution.

THE LOOK BACK
PROPOSAL BY SENATOR KENT CONRAD

SUMMARY

This bill closes a loop-hole in the current Gramm-Rudman law that allows Congress to shift funding into the current fiscal year once the sequestration window has passed.

This bill would leave the current provisions of Gramm-Rudman in place, but would reduce the incentive to shift funding to the current year. Under the provisions of this bill, when OMB determines the need for a sequestration based on the projected deficit for the next fiscal year, it would also look at the fiscal year just completed and determine whether Congressional action caused the deficit to increase. (This bill examines Congressional action only, holding harmless economic changes. [Congress would not be penalized for any changes in economic or technical assumptions, nor could they take advantage of them.])

Congress would be required to use CBO economic and technical assumptions throughout the budget process.

The bill would be implemented immediately causing the first "look back" sequestration determination to occur in October 1990.

Implementation

All action throughout the fiscal year would be scored on the original forecast prepared at the beginning of the fiscal year.

For example, in August of 1989, OMB determined that the deficit for fiscal year 1990 would be \$126 billion using a specific set of economic and technical assumptions. OMB would be required to score all Congressional action throughout the fiscal year on those economic and technical assumptions and determine at the end of the fiscal year whether the action taken by Congress would increase the deficit beyond the targeted amount.

If Congressional action pushed the deficit over the target (by more than the \$10 billion cushion), a sequestration would be required to bring the deficit back down to the cushion level. This sequestration would be determined separately, but occur at the same time as the sequestration on the upcoming fiscal year.

GAO

United States General Accounting Office

Testimony

For Release
at Hearing
Expected at
10:00 a.m.
Wednesday
October 18,
1989

The Budget Treatment of Trust Funds

Statement of
Charles A. Bowsher, Comptroller General
of the United States

Submitted for the record to
the Committee on Governmental Affairs and
the Committee on the Budget
United States Senate



Messrs. Chairmen and Members of the Committees:

I welcome this opportunity to submit our views on the budget treatment of trust funds and, in particular, whether the Social Security surpluses should be included in the budget totals subject to deficit reduction actions. In my statement I will provide a brief overview of trust funds and explain why we think that Social Security should be on-budget but excluded from the deficit calculations in the Gramm-Rudman-Hollings or similar deficit reduction plans.

OVERVIEW OF TRUST FUNDS

The Office of Management and Budget (OMB) currently classifies a budget account as a trust fund if the relevant authorizing legislation provides that the program shall be financed by certain revenues dedicated to a "trust" account. On this basis, widely different programs appear in the budget as trust fund programs. They range from discretionary programs, such as those of the Highway Trust Fund, to entitlement programs, such as those in the two Social Security trust funds. In fiscal year 1988, about \$514 billion, or 48 percent of all U.S. Treasury receipts that year, were earmarked for use as trust funds.

Prior to fiscal year 1969, trust funds were not included in the government's most commonly used budget, the Administrative

Budget. They were in other budgets known as the Consolidated Cash Budget and National Income Accounts Budget. That changed when, based on a recommendation of the 1967 President's Commission on Budget Concepts, the President submitted for fiscal year 1969 a new, "unified" budget covering all trust and non-trust activities of the government.

As subsequent events have shown, however, the decision to include trust funds in the budget did not resolve the budget status of trust funds. Shortly after adoption of the unified budget, a debate opened in the Congress that continues to this day on whether trust funds should be in the budget and treated like other accounts. There has been a proliferation of proposals aimed at removing one or more trust funds from the budget.

In 1983, one such proposal became law, stipulating that, effective for fiscal year 1993, the two Social Security trust funds would go off-budget. In 1985, the first Gramm-Rudman-Hollings (G-R-H) legislation made the removal of the two funds effective immediately, but with the proviso that the two funds' receipts and outlays be included in the deficit calculation for G-R-H purposes. The Social Security benefit amounts were, however, exempted from G-R-H sequester procedures.

This 1985 provision is still the law, and it allowed OMB in its August and October 1989 sequester reports for fiscal year

1990 to offset projected Social Security surpluses of about \$65 billion, along with about \$69 billion in other trust surpluses, against a projected deficit in the rest of the government's activities of about \$250 billion--resulting in an estimated deficit for G-R-H purposes of about \$116 billion.

About seven bills which propose changes to the budget treatment of the Social Security and other trust funds are currently pending in the Senate. Of the seven, five would exclude the Social Security Trust Funds from the deficit calculation, with three of these bills extending the dates for G-R-H deficit targets. One of the remaining two bills would divide the budget into sections for retirement trust funds, operating amounts, and debt and interest amounts. There also would be a separate trust fund to reduce the public debt. The remaining bill would restructure the current unified budget to provide new sections for general activities, trust funds, enterprise activities, with each divided into operating and capital parts.

GAO POSITION ON TRUST FUNDS

We have long been a proponent of the view that sound budgeting requires a federal budget that includes the receipts and outlays of all federal government activities, including the trust funds. We believe that a unified budget approach makes it

easier to compare programs and their costs and that it provides the financial overview needed for setting fiscal policy and initiating economic stabilization measures.

The need for a unified budget remains as strong today as it was in 1969. Indeed, it may be even more important to have such a budget at this time of large peacetime deficits and increasing pressures to move programs away from the discipline of the budget process. Such pressures resulted in creating an off-budget government-sponsored enterprise (GSE), the Resolution Funding Corporation (REFCORP), to finance most of the costs of the government's rescue of the savings and loan deposit insurance system--at an added cost of several billions to the U.S. Treasury and taxpayers. I should add that in addition to REFCORP, 5 other off-budget GSEs have been created since the G-R-H legislation was enacted in 1985. Prior to the G-R-H era, it was in 1972 that the last GSE was created. I am greatly concerned about misusing the GSE concept or any other type of action that makes the budget numbers look good but hides the true magnitude of the problem.

However, while we support the unified budget, we are aware that there are many problems with it. The present budget structure, with its exclusive focus on a single, bottom-line cash deficit, obscures important differences among programs and makes it virtually impossible for the public and many officials to understand what is actually going on in the government's

finances. More particular to today's hearing, the merging of trust and nontrust fund receipts and outlays into a single budget surplus or deficit has led to two kinds of problems.

First, proponents of some major trust fund programs, such as the Highway and the Airport and Airways trust funds, have stated that including these trust funds in the budget's totals has prompted the misuse of the trust funds. They charge that while these trust funds have a steady stream of dedicated tax receipts, budgeting actions have restricted fund outlays in order to create trust fund surpluses, thereby lowering the reported unified deficit. The proponents hold that this breaks the implied agreement underlying the original enactment of the funds--that is, that the tax receipts raised would be fully used for the trust fund programs.

The second closely related problem is that using the trust fund surpluses, especially the rapidly growing Social Security surpluses, to offset the deficit in the government's general activities masks the basic imbalance in the government's general financial affairs. It leaves the impression that the deficit problem is being corrected when, in fact, it is getting worse. Whereas the unified budget total deficit has declined under the G-R-H law, going from about \$222 billion in fiscal year 1985 to about \$161 in fiscal year 1989, the deficit in the nontrust part of the budget has actually increased somewhat over the same

period, going from about \$266 billion to approximately \$283 billion.

Furthermore, while the most recent budget projects declining total deficits over the next 5 years, a Congressional Budget Office (CBO) analysis excluding the trust surpluses projects a rising deficit in the rest of the budget during the same period. According to CBO, the nontrust deficit will rise to about \$303 billion in fiscal year 1994.

I should add that the budget's structure also creates incentives to remove certain governmental business-type enterprises from the budget. These are entities such as the Postal Service, established to be largely self-financed. By not differentiating these enterprises from the regular activities of the government, it is difficult to develop multiyear budget plans that recognize such entities' special investment and operating needs.

Some would deal with these problems by removing some or all trust funds from the budget. There also are proposals to remove certain business-type enterprises from the budget. We believe, however, that the problems can and should be addressed within the framework of a unified budget. We would do this by dividing the budget into three major components--general, trust, and enterprise funds--and having separate budget subtotals for each.

This would unmask the effects of trust fund surpluses on the overall totals, highlight the activities of the enterprises, and permit more deficit reduction options. In addition to a budget goal for the overall budget, as seen in the Gramm-Rudman-Hollings legislation, a separate goal for each major component could reflect a legislative decision on the appropriate deficit reduction or surplus path for each of the three areas.

The following table shows fiscal year 1988 budget results restructured according to our proposal.

GAO's Fiscal Year 1988
Restructured Budget Results
(Dollars in Billions)

	<u>Total</u>	<u>General</u>	<u>Trust</u>	<u>Enterprise</u>
Operating surplus/deficit (-)	\$-131	\$-248	\$124	\$ -7
Capital financing requirements	<u>-24</u>	<u>-23</u>	<u>2</u>	<u>-3</u>
Unified budget financing requirements	<u>\$-155</u>	<u>\$-271</u>	<u>\$126</u>	<u>\$-10</u>

We are aware that separating out trust and enterprise activities would heighten the importance of having good definitions of those kinds of activities. At this time, though, there are no governmental definitions for the kinds of activities and financial transactions that should be accounted for through trust funds, and many different kinds of programs with widely varying financing mechanisms are classified as trust fund activities. Similarly, many kinds of activities are classified

as enterprise activities. We are now studying definitional issues and will be reporting our results in the near future. In the meantime, the current lack of definitions should not be viewed as a barrier to disclosing the major budget components.

DEFICIT REDUCTION SHOULD FOCUS ON THE
NON-SOCIAL SECURITY PART OF THE BUDGET

G-R-H probably served to constrain the level of budget deficits, but its track record has been filled with the development of a variety of budget accounting gimmicks to give the appearance of meeting short-term deficit reduction goals. This confuses the public and leaves a poor impression of the budget process. We must really bring down the deficit and this may not happen if these gimmicks continue.

Furthermore, simply lowering the total deficit probably is not enough. I have previously stated our view that a long-term goal of federal fiscal policy should be to increase the rate of national savings and investment. U.S. rates are low in comparison with other major industrial countries. The question of just how much added savings is needed for investment purposes is a complex one with no single, correct answer. But I would suggest that the government should definitely take steps to start increasing savings. In this environment, current projections of future Social Security financing flows present an opportunity.

Over the next several decades, the scheduled accumulation of Social Security reserves can reverse the Treasury's current role as a net borrower from the public. Bringing the deficit in the rest of the budget under control can possibly result in a surplus in the total budget. Then the Treasury can use its positive cash flow to redeem some of the maturing government debt now held by the public. This would allow private sector investors to switch their funds from the financing of government deficits to the financing of private capital formation. The ensuing long-term rise in national income would make future workers better able to support the growing number of retirees while maintaining their own standard of living.

The main point is that running such a unified budget surplus would require that the budget for the non-Social Security part of the government be restored over time to approximate balance. This would mean excluding the Social Security surpluses from calculations of the deficit subject to deficit reduction action. Of course, this would be a very difficult policy to carry out and would underscore the need for a multiyear, politically sustainable budget strategy involving some combination of spending restraints and revenue increases.

United States General Accounting Office

GAO

Fact Sheet for the Honorable Terry Sanford
U.S. Senate

June 1989

BUDGET ISSUES

Budget Numbers for Proposed Bill S. 101



Printed copies of this document will be available shortly.

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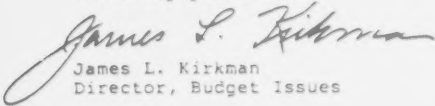
B-227245

-- Appendix VII lists the names of the major contributors to this report.

We are sending copies of this report to the Director, Office of Management and Budget; the Director, Congressional Budget Office; and other interested parties. Copies will also be available to others upon request.

I hope this information will be helpful to you. If we can be of further assistance, please contact me at (202) 275-9573.

Sincerely yours,



James L. Kirkman
Director, Budget Issues



United States
General Accounting Office
Washington, D.C. 20548

Accounting and Financial
Management Division

B-227245

June 30, 1989

The Honorable Terry Sanford
United States Senate

Dear Senator Sanford:

In March 1989, your office requested our assistance in providing detailed budget numbers for illustrating your bill entitled, "Balanced Budget and Debt Reduction Act of 1989" (S. 101). On April 6, 1989, we briefed you and your staff on the results of our work. At that time, you asked us to provide you with additional details relating to your proposal. Specifically, you wanted a breakdown of major components contained in the budget proposed in S. 101. This report is in response to that request. It conveys the results of our technical assistance to you and does not represent a GAO proposal.

We relied on the Office of Management and Budget's (OMB) fiscal year 1990 budget tape for actual fiscal year 1988 data to prepare each of the budgets. While OMB generally reports budget amounts as net of intragovernmental transactions and offsetting collections from the public, the amounts in this fact sheet include all revenues and outlays. We provide reconciliations of the gross amounts presented in this fact sheet with OMB's net figures.

In addition to this letter, this report contains seven appendixes:

- Appendix I provides a schedule combining all of your budgets: Retirement Funds, Debt and Interest, and Operating. This schedule also shows gross receipts, outlays, and the annual deficit.
- Appendixes II, III, and IV provide additional detail for the major components included in the Retirement Funds Budget, the Debt and Interest Budget, and the Operating Budget, respectively.
- Appendix V provides a reconciliation from the gross amounts used in our tables to OMB net amounts.
- Appendix VI discusses the methodology for developing the budget data for your proposal.

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ABBREVIATIONS

CBO	Congressional Budget Office
GAO	General Accounting Office
OMB	Office of Management and Budget

BUDGETS PROPOSED IN S. 101

Table 1.1 shows the three budgets defined in S. 101: Retirement Funds Budget, Debt and Interest Budget, and Operating Budget.

The Retirement Funds Budget shows the accumulated balance of retirement funds at the beginning of fiscal year 1988, all receipts and payments of retirement funds during fiscal year 1988, the fiscal year 1988 retirement funds surplus, and the accumulated balance of retirement funds at the end of fiscal year 1988.

The Debt and Interest Budget shows the debt at the beginning and end of fiscal year 1988; the difference between the two represents net borrowing for the year. This budget also shows the total amount of expenditures for interest.

The Operating Budget shows receipts and outlays other than those included in the retirement and interest budgets during the year and the amount by which outlays exceed receipts.

These data represent gross amounts from receipt and appropriation accounts which include budget, intragovernmental, and proprietary receipts and offsetting collections from the public.

APPENDIX I

APPENDIX I

Table I.1: Budgets Proposed in S. 101

Dollars in Billions

<u>Retirement Funds Budget</u>		<u>Debt and Interest Budget</u>	
Trust balances at beginning of fiscal year 1988	\$ 347.1	Debt Beginning of fiscal year 1988	\$2,345.6
		End of fiscal year 1988	<u>2,600.8</u>
Receipts		Net borrowing for 1988	\$ 255.2
Special taxes	318.7	Statutory debt limit	\$2,800.0
Employer contributions	97.3		
Interest on investments	36.2	Interest	
Total receipts	<u>\$ 452.2</u>	Interest on debt	\$ 215.8
Outlays (payments)	364.4		
Fiscal year 1988 surplus	87.8		
Trust balances at end of fiscal year 1988	\$ 435.0		

Recap on a gross basis

Receipts (revenues)		Outlays (payments)	
Retirement	\$ 452.2	Retirement	\$ 364.4
Operating	790.9	Operating	818.0
		Interest	<u>215.8</u>
Gross receipts	<u>\$1,243.1</u>	Gross outlays	<u>\$1,398.2</u>

APPENDIX I

APPENDIX I

Operating Budget

Receipts	
Personal income	\$ 401.2
Corporate income	94.5
Excise taxes	35.2
Other receipts	
Other taxes and fees	68.1
Intragovernmental receipts	32.0
Proprietary receipts	25.9
Offsetting collections	134.0
Total revenues	\$ 790.9
Outlays	
Entitlements	240.9
Defense	308.5
Other government	268.6
Total outlays	\$ 818.0
Fiscal year 1988 deficit	\$ (27.1)

Surplus (deficit)	
Retirement	\$ 87.8
Operating	(27.1)
Interest	(215.8)
Budget deficit	\$(155.1)

Notes:

1. Gross data is from receipt accounts and appropriation accounts which include budget, intragovernmental, and proprietary receipts. Offsetting collections from the public have been added to both receipts and outlays.
2. Numbers may not add due to rounding.

RETIREMENT FUNDS BUDGET

The Retirement Funds Budget, as outlined in S. 101, is made up of the following accounts:

- Federal Old-Age and Survivors Insurance Fund,
- Federal Hospital Insurance Trust Fund,
- Civil Service Retirement and Disability Fund,
- Military Retirement Fund,
- Federal Supplementary Medical Insurance Trust Fund,
- Federal Disability Insurance Trust Fund, and
- Railroad Retirement Fund.

The Federal Old-Age and Survivors Insurance Trust Fund makes up the major part of both receipts and outlays.

RECEIPTS

The three sources of receipts for these retirement accounts are

- taxes and contributions, which are employee taxes and contributions;
- federal employer contributions, which are agencies' payments as employers and other federal contributions; and
- interest, which is receipts of earnings on retirement investments in federal securities.

Table II.1 shows total receipts and the amount of receipts for each account in the three source categories. Additionally, this table shows each category's percentage of the account and each account's percentage of total retirement receipts.

APPENDIX II

APPENDIX II

APPENDIX II

APPENDIX II

Table II.1: Retirement Fund Receipts for Fiscal Year 1988

Dollars in Millions

<u>Fund</u>	<u>Taxes and contributions</u>		<u>Federal employer contributions</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Federal Old-Age and Survivors Insurance Trust Fund	\$220,336.9	69.1	\$ 9,501.1	9.8
Federal Disability Insurance Trust Fund	21,154.2	6.6	648.5	0.7
Railroad Retirement ^a	3,900.4	1.2	5,538.3	5.7
Federal Hospital Insurance Trust Fund	59,901.7	18.8	2,929.0	3.0
Federal Supplementary Medical Insurance Trust Fund	8,755.7 ^b	2.7	25,418.0	26.1
Civil Service Retirement ^c	4,658.5	1.5	24,641.6	25.3
Military Retirement Fund	<u>0.0</u>	<u>0.0</u>	<u>28,667.3</u>	<u>29.4</u>
Total	<u>\$318,707.4</u>	100.0	<u>\$97,343.9</u>	100.0

APPENDIX II

APPENDIX II

Interest		Total receipts	
Amount	Percent	Amount	Percent
\$ 6,758.3	18.7	\$236,596.3	52.3
657.3	1.8	22,460.0	5.0
573.1	1.6	10,011.8	2.2
5,168.6	14.3	67,999.3	15.0
828.1	2.3	35,001.8	7.7
17,716.3	49.0	47,016.4	10.4
<u>4,449.7</u>	<u>12.3</u>	<u>33,117.0</u>	<u>7.3</u>
<u>\$36,151.4</u>	100.0	<u>\$452,202.7</u>	100.0

Note: Numbers may not add due to rounding.

^aRailroad Retirement includes the

- Railroad Social Security Equivalent Benefit Account,
- Rail Industry Pension Fund, and
- Supplemental Annuity Pension Fund.

^bThis figure represents Medicare premiums paid by the public.

^cCivil Service Retirement includes the

- Judicial Survivors Annuities Fund,
- Tax Court Judges Survivors Annuity Fund,
- Civil Service Retirement and Disability Fund, and
- Foreign Service Retirement and Disability Fund.

APPENDIX II

APPENDIX II

OUTLAYS

Table II.2 shows retirement payments during fiscal year 1988. It shows the amount of payments for each account and this amount's percentage of total retirement payments.

Table II.2: Retirement Fund Outlays for Fiscal Year 1988

Dollars in Millions

<u>Fund</u>	<u>Payments</u>	<u>Percent</u>
Federal Old-Age and Survivors Insurance Trust Fund	\$197,896.6	54.3
Federal Disability Insurance Trust Fund	22,360.1	6.1
Railroad Retirement ^a	8,977.5	2.5
Federal Hospital Insurance Trust Fund	52,729.5	14.5
Federal Supplementary Medical Insurance Trust Fund	34,946.7	9.6
Civil Service Retirement ^b	28,430.9	7.8
Military Retirement	19,009.0	5.2
Total	<u>\$364,350.4</u>	100.0

Note: Numbers may not add due to rounding.

^aRailroad Retirement includes the

- Railroad Social Security Equivalent Benefit Account,
- Rail Industry Pension Fund, and
- Supplemental Annuity Pension Fund.

^bCivil Service Retirement includes the

- Judicial Survivors Annuities Fund,
- Tax Court Judges Survivors Annuity Fund,
- Civil Service Retirement and Disability Fund, and
- Foreign Service Retirement and Disability Fund.

DEBT AND INTEREST BUDGET

The second part of the restructured budget outlined in S: 101 is the Debt and Interest Budget. This is made up of two major components:

- increase in the public debt and
- interest on the public debt.

INCREASE IN PUBLIC DEBT

Two types of funds make up the increase in public debt: funds borrowed from government accounts and funds borrowed from the public.

Table III.1, the public debt schedule, shows the gross federal debt at the beginning and end of fiscal year 1988. This table also shows the composition of fiscal year 1988 borrowing, the means of financing the fiscal year 1988 deficit, and the change in debt held by the public during this period.

Table III.1: Debt and Borrowing for Fiscal Year 1988

Dollars in Billions

<u>Debt and borrowing</u>	<u>Amount</u>
Gross federal debt, beginning of fiscal year 1988	\$2,345.6
Borrowing	
From government accounts	93.1
From the public	
Deficit	155.1
Increase in cash balance	8.0
Other	
Increases in checks outstanding	(0.5)
Deposit fund balances	0.6
Seigniorage on coins	(0.5)
Proceeds of loan asset sales	
with recourse	(0.6)
Federal borrowing for fiscal year 1988	255.2
Gross federal debt, end of fiscal year 1988	\$2,600.8

INTEREST ON THE PUBLIC DEBT

The federal government both pays and receives interest as a result of its borrowing and lending activities. There are three categories of interest payments.

- Interest on the public debt, which equates to net interest: Net interest includes interest paid by the federal government less the interest it collects. Almost all federal debt consists of public debt issued by the Department of the Treasury, and Treasury pays interest on this public debt.
- Interest paid to retirement accounts: Most major trust funds are required by law to invest excess funds in Treasury securities. When Treasury pays interest on these funds, the interest payments are included in interest on the public debt. (Interest received by retirement funds on investments in public debt is shown in table II.1.)
- Interest paid to other accounts: Other intragovernmental transfers include interest from the Federal Financing Bank on federal government capital, interest on income tax refunds, and interest on uninvested funds.

Table III.2, the interest schedule, shows the total interest for fiscal year 1988. This schedule also shows the net interest transactions with the public, interest on retirement funds, and other intragovernmental interest transfers.

The total interest expense for fiscal year 1988 includes interest paid to the Federal Reserve System. This interest is on government securities held by the Federal Reserve System to implement monetary policy. However, the Federal Reserve System returns almost all of this interest to Treasury as earnings of the Federal Reserve System. (See table IV.1.) Therefore, this interest is included in net interest.

APPENDIX III

APPENDIX III

Table III.1: Interest Payments for Fiscal Year 1988

Dollars in Billions

<u>Interest source</u>	<u>Amount</u>
Net interest on the public debt	\$151.7
Interest on retirement funds	
On-budget trust funds	28.7
Off-budget trust funds	7.4
Interest on nonretirement trust funds ^a	
Entitlements	3.5
Defense	0.0
Other government	2.3
Other interest	
Federal Financing Bank	15.2
Government capital in enterprises ^b	3.7
All other	<u>3.2</u>
Gross interest outlays	<u>\$215.8</u>

Note: Numbers may not add due to rounding.

^aSenator Sanford's designation.^bSuch as the Commodity Credit Corporation.

OPERATING BUDGET

As outlined in S. 101, the third budget is the Operating Budget, which consists of all receipts and outlays other than those included in the Retirement Funds Budget (appendix II) or the Debt and Interest Budget (appendix III).

RECEIPTS

Sources of operating revenues are taxes, receipts, and offsetting collections. Personal income, corporate, and excise taxes comprise the major source of operating revenues. These tax revenues are presented in table I.1. Tables in appendix IV provide additional detail for the two remaining sources: other budget receipts and offsetting collections.

The other budget receipts category includes

- taxes and fees other than personal income, corporate, and excise tax receipts;
- intragovernmental receipts, payments from one government account deposited into another's receipt account; and
- proprietary receipts from the public, collections from business-type or market-oriented activities of the federal government that are deposited into receipt accounts.

Other Taxes and Fees

For fiscal year 1988, other taxes and fees primarily consisted of unemployment taxes and earnings of the Federal Reserve System. Table IV.1 shows the four major sources of other taxes and fees and the percentage each is of total other taxes and fees. They represent 96.0 percent of this total.

APPENDIX IV

APPENDIX IV

Table IV.1: Other Taxes and Fees for Fiscal Year 1988

Dollars in Millions

<u>Source of receipt</u>	<u>Amount</u>	<u>Percent</u>
Unemployment tax	\$24,426.2	35.9
Earnings of the Federal Reserve System ^a	17,163.2	25.2
Customs duties	16,198.1	23.8
Estate and gift tax	7,594.3	11.1
All other budget receipts	2,746.7	4.0
Total	<u>\$68,128.5</u>	100.0

^aSee appendix III for details concerning the Federal Reserve System.

Intragovernmental Receipts

Intragovernmental receipts are payments from one government account to another that are deposited into receipt accounts. Generally, OMB deducts these transactions from both receipts and outlays at the agency or function level. But OMB treats two types of these transactions as deductions from total receipts and outlays: (1) agencies' payments as employers into employee retirement trust funds and (2) interest received by trust funds.

Interest received from the Federal Financing Bank, interest paid to government trust funds and corporations, and transfers to repay loans and advances accounted for most of these receipts during fiscal year 1988.

Table IV.2 shows the categories of intragovernmental receipts and their major component sources. The top four categories represent 93.6 percent of total intragovernmental receipts.

APPENDIX IV

APPENDIX IV

Table IV.2: Intragovernmental Receipts for Fiscal Year 1988

Dollars in Millions

<u>Receipt category</u>	<u>Amount</u>	<u>Percent^a</u>	<u>Percent of total^b</u>
Interest received by the Federal Financing Bank	\$15,227.7	100.0	47.6
Interest received by governmental trust funds			
Unemployment Trust Fund	\$ 2,341.4	40.8	
National Service Life Insurance Fund	982.0	17.1	
Highway Trust Fund	1,192.7	20.8	
Airport and Airway Trust Fund	892.6	15.5	
Other sources	334.6	5.8	
Total	\$ 5,743.4	100.0	18.0
Transfers between federal and trust funds			
Federal unemployment account	\$ 2,271.0	43.2	
Repayment of advances against the financial interchange	2,312.6	44.0	
Administrative expenses of the Social Security Act, as amended	466.4	8.9	
Other sources	207.6	3.9	
Total	\$ 5,257.6	100.0	16.4
Interest received on government capital			
Commodity Credit Corporation	\$ 947.6	25.5	
Agriculture Credit Insurance Fund	711.5	19.1	
Housing for the Elderly and Handicapped	575.5	15.5	
Federal Housing Administration			
General Insurance Fund	300.3	8.1	
Rural Housing Insurance Fund	285.9	7.7	
Other sources	895.2	24.1	
Total	\$ 3,716.0	100.0	11.6
All other intragovernmental receipts	\$ 2,050.2	100.0	6.4
Total	\$31,994.8		100.0

Note: Numbers may not add due to rounding.

^aPercentage of receipt category.^bPercentage of total intragovernmental receipts.

APPENDIX IV

APPENDIX IV

Proprietary Receipts

Proprietary receipts result from business-type or market-oriented activities of the federal government. Generally, OMB deposits these collections into receipt accounts and deducts them from receipts and outlays at the agency or subfunction level. However, OMB classifies some receipts, such as rents and royalties from outer continental shelf lands, as undistributed offsetting receipts and deducts them from total budget receipts and outlays.

Table IV.3 shows the top four categories and the percentage each is of total proprietary receipts for fiscal year 1988. Military assistance sales represents 34.7 percent of the total and the remaining 65.3 percent represents many smaller accounts.

Table IV.3: Proprietary Receipts for Fiscal Year 1988

Dollars in Millions

<u>Receipt source</u>	<u>Amount</u>	<u>Percent</u>
Military assistance sales	\$ 8,964.3	34.7
Outer continental shelf royalties	2,267.8	8.8
Interest received from tax and loan deposits	1,394.3	5.4
Uranium enrichment revenues	1,233.7	4.8
All other proprietary receipts	<u>12,008.5</u>	<u>46.4</u>
Total	<u>\$25,868.6</u>	100.0

Note: Numbers may not add due to rounding.

Offsetting Collections From the Public

Collections which result from business-type or market-oriented activities or collections of payments from the public are classified as offsetting collections and credited to appropriation or fund accounts. When authorized by law, such collections are credited directly to expenditure accounts for all revolving funds and for some appropriation accounts. OMB shows outlays for these accounts as disbursements less offsetting collections, that is, as net outlays. Offsetting collections are not reflected in either total receipts or total outlays reported by OMB. By including these offsetting collections in total receipts and by distributing them among entitlements, defense, and other government categories when computing total outlays, these schedules show all receipts from the public and all outlays to the public in fiscal year 1988.

APPENDIX IV

APPENDIX IV

Table IV.4 shows the major sources of offsetting collections for the entitlements, defense, and other government categories during fiscal year 1988, as well as the percentage of total receipts for each category. These categories are discussed in detail under outlays. For entitlements, four accounts received 64.8 percent of the total offsetting collections; for defense, three accounts received 77.6 percent of the total; and for other government, four accounts received 75.1 percent of the total.

Table IV.4: Offsetting Collections From the Public
for Fiscal Year 1988

Dollars in Millions

<u>Account</u>	<u>Amount</u>	<u>Percent</u>
Entitlements		
Commodity Credit Corporation	\$21,426.3	34.4
Federal Savings and Loan Insurance Corporation Fund	8,167.1	13.1
Federal Housing Administration Fund	5,853.0	9.4
Federal Deposit Insurance Corporation (Trust Revolving Fund)	4,924.2	7.9
All other entitlement accounts	<u>21,948.3</u>	<u>35.2</u>
Total entitlements	<u>\$62,319.0</u>	100.0
Defense		
Air Force Stock Fund	\$ 2,391.4	33.9
Army Stock Fund	1,850.1	26.2
Navy Stock Fund	1,233.9	17.5
All other defense accounts	<u>1,579.4</u>	<u>22.4</u>
Total defense	<u>\$ 7,054.9</u>	100.0
Other government		
Postal Service Fund	\$33,986.1	52.6
Rural Electrification and Revolving Loan Fund	5,112.4	7.9
Tennessee Valley Authority	5,020.1	7.8
International Security Assistance	4,399.1	6.8
All other government accounts	<u>16,142.6</u>	<u>25.0</u>
Total other government	<u>\$64,660.4</u>	100.0
Total Offsetting Collections	<u>\$134,034.3</u>	

Note: Numbers may not add due to rounding.

OUTLAYS

Outlays are distributed into three categories.

- Entitlements are legal rights to payments from Treasury. The accounts included in this category come from the Congressional Budget Office's (CBO) "Revised Baseline for FY 1989-1994, Entitlements and Other Mandatory Spending."¹
- The defense category comprises the accounts in OMB's budget function 050 and includes the development and procurement of equipment and the payment of military personnel.
- The other government category includes accounts which are not classified as retirement, interest, entitlements, or defense.

Table IV.5 shows the five largest accounts for each category of outlays during fiscal year 1988. The first column of table IV.5 shows gross outlays according to OMB (outlays less offsetting collections), the second column shows each account's percentage of total outlays for the category, the third column shows offsetting collections, the fourth column shows gross outlays according to OMB plus offsetting collections, and the fifth column shows each account's percentage of total outlays for the category.

For entitlements, the five top accounts represent 45.7 percent of total entitlement outlays during fiscal year 1988. For defense, the top five major accounts represent 36.5 percent of total defense outlays during fiscal year 1988. For the other government category, the top five accounts represent 28.7 percent of total other government outlays during fiscal year 1988.

¹The distribution between entitlements and other government differs from the amounts shown by CBO.

APPENDIX IV

APPENDIX IV

Table IV.5: Outlays by Category for Fiscal Year 1988

Dollars in Millions

<u>Account</u>	<u>OMB gross outlays</u>	<u>Percent</u>	<u>Offsetting collections</u>
Entitlements			
Grants to States for Medicaid	\$ 30,461.6	17.1	\$ 0.0
Unemployment Trust Fund	18,597.7	10.4	0.0
Supplemental Security Income Program	12,345.0	6.9	2,859.2
Food Stamp Program	12,265.0	6.9	0.0
Commodity Credit Corporation	12,174.8	6.8	21,426.3
All other entitlements	<u>92,769.9</u>	<u>51.9</u>	<u>38,033.5</u>
Total entitlement outlays	<u>\$178,614.0</u>	100.0	<u>\$62,319.0</u>
Defense			
Operation and Maintenance, Navy	\$ 25,529.6	8.5	\$ 69.4
Military Personnel, Army	23,849.1	7.9	66.6
Operation and Maintenance, Army	22,205.6	7.4	147.6
Operation and Maintenance, Air Force	20,827.0	6.9	68.7
Military Personnel, Air Force	19,764.1	6.6	53.2
All other defense	<u>189,325.5</u>	<u>62.8</u>	<u>6,649.4</u>
Total defense outlays	<u>\$301,500.9</u>	100.0	<u>\$ 7,054.9</u>
Other government			
Payments to Health Care Trust Funds	\$ 26,463.0	13.0	\$ 0.0
Payment to Civil Service Retirement and Disability Trust Fund	15,572.3	7.6	0.0
Federal-Aid Highways	13,828.9	6.8	20.3
Rental Housing Assistance	11,222.3	5.5	0.0
Veterans Health Service and Research Administration-Medical Care	10,045.3	4.9	20.3
All other government	<u>126,753.7</u>	<u>62.2</u>	<u>64,619.8</u>
Total other government outlays	<u>\$203,885.4</u>	100.0	<u>\$64,660.4</u>

APPENDIX IV

APPENDIX IV

<u>Gross outlays</u>	<u>Percent</u>
\$ 30,461.8	12.6
18,597.8	7.7
15,204.3	6.3
12,265.0	5.1
33,601.2	13.9
<u>130,803.2</u>	<u>54.3</u>
<u>\$240,933.3</u>	100.0
\$ 25,599.0	8.3
23,915.8	7.8
22,353.2	7.2
20,895.7	6.8
19,817.3	6.4
<u>195,974.8</u>	<u>63.5</u>
<u>\$308,555.8</u>	100.0
\$ 26,463.0	9.9
15,572.3	5.8
13,849.2	5.2
11,222.3	4.2
10,065.6	3.7
<u>191,373.5</u>	<u>71.3</u>
<u>\$268,545.8</u>	100.0

RECONCILIATION

Totals in our tables include offsetting collections (both those deposited into receipt accounts and those credited to appropriation accounts) which result from business-type or market-oriented activities with the public and intragovernmental transfers from one government account to another. These totals differ from OMB's reported budget totals, which are calculated on a net basis: they subtract intragovernmental and proprietary receipts from both receipts and outlays. Tables V.1, V.2, and V.3 serve to reconcile our totals to OMB net budget totals.

RECONCILIATION OF GROSS WITH
NET RECEIPT AND OUTLAY TOTALS

Since the gross receipt and outlay amounts included in this fact sheet differ substantially from receipts and outlays in the OMB budget schedules, we reconcile these two amounts by subtracting offsetting collections and proprietary and intragovernmental receipts from the gross receipt and outlay amounts to arrive at OMB's net budget totals. Table V.1 reconciles our gross receipts and outlays with OMB's net budget totals.

APPENDIX V

APPENDIX V

Table V.1: Reconciliation of Gross With Net Receipt and Outlay Totals for Fiscal Year 1988

Dollars in Billions

<u>Receipts</u>	<u>Amount</u>
Gross receipts	\$1,243.1
Offsetting collections	(134.0)
Offsetting receipts	
Proprietary receipts	(34.7)
Intragovernmental receipts	
Federal intrafund	(19.2)
Trust intrafund	(2.9)
Interfund	(143.4)
Net receipts	\$ <u>908.9</u>
<u>Outlays</u>	
Gross outlays	\$1,398.2
Offsetting collections	(134.0)
Offsetting receipts	
Proprietary receipts	(34.7)
Intragovernmental receipts	
Federal intrafund	(19.2)
Trust intrafund	(2.9)
Interfund	(143.4)
Net outlays	\$ <u>1,064.0</u>

RECONCILIATION OF GROSS RECEIPTS WITH NET RECEIPTS

Another way to show the differences between gross receipt numbers and OMB net numbers is by showing the Retirement Funds Budget and Operating Budget receipts. Table V.2 does this by subtracting intragovernmental transfers (payments from one government account to another), proprietary receipts, and offsetting collections from total receipts for each budget.

APPENDIX V

APPENDIX V

Table V.2: Reconciliation of Gross Receipts With Net Receipts
for Fiscal Year 1988

Dollars in Billions

<u>Receipts</u>	<u>Retirement</u>	<u>Operating</u>	<u>Total</u>
Gross receipts	\$452.2	\$790.9	\$1,243.1
Intragovernmental transfers	(133.5)	(32.0)	(165.5)
Proprietary receipts	(8.8)	(25.9)	(34.7)
Offsetting collections	(0.0)	(134.0)	(134.0)
Net receipts	<u>\$309.9</u>	<u>\$599.0</u>	<u>\$ 908.9</u>

RECONCILIATION OF GROSS OUTLAYS WITH NET OUTLAYS

To show the differences between gross numbers and OMB net numbers for outlays, table V.3 provides gross and net amounts for each of the three budgets (Retirement Funds, Debt and Interest, and Operating) comprising the S. 101 proposal. In addition, the table shows net and gross amounts for the Operating Budget allocated into three categories: entitlements, defense, and other government.

We derived the net amounts shown in table V.3 by deducting intragovernmental transfers (payments from one government account to another), proprietary receipts, and offsetting collections from gross amounts.

APPENDIX V

APPENDIX V

Table V.3: Reconciliation of Gross Outlays With Net Outlays for
Fiscal Year 1988

Dollars in Billions

<u>Budget</u>	<u>Gross</u> <u>outlays</u>	<u>Deductions</u>			<u>Net</u> <u>outlays</u>
		<u>Intra-</u> <u>governmental</u> <u>transfers</u>	<u>Proprietary</u> <u>receipts</u>	<u>Offsetting</u> <u>collections</u>	
Retirement Funds	\$ 364.4	\$ (6.8)	\$ (8.8)	\$ (0.0)	\$ 348.8
Debt and Interest	215.8	(61.0)	(3.1)	(0.0)	151.7
Operating					
Entitlements	240.9	(2.3)	(15.3)	(62.3)	161.0
Defense	308.5	(10.3)	(0.8)	(7.0)	290.4
Other government	268.6	(85.1)	(6.7)	(64.7)	112.1
Total	<u>\$1,398.2</u>	<u>\$ (165.5)</u>	<u>\$ (34.7)</u>	<u>\$ (134.0)</u>	<u>\$1,064.0</u>

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this report is to provide actual fiscal year 1988 budget numbers for the budgets proposed in S. 101 and to provide schedules of the major components of receipt and outlay categories.

Our analysis was conducted from March through May 1989. We used OMB's fiscal year 1990 budget tape to prepare computer listings of receipts (receipt accounts) and outlays (appropriation accounts) for fiscal year 1988.

Our totals differ from OMB totals in that our gross amounts include a distribution of all offsetting receipts and collections into the categories defined in S. 101. For the most part, OMB deducts offsetting receipts from agency and functional totals. However, OMB also shows large deductions from budget totals that are undistributed. These include agencies' payments into employee retirement trust funds, interest received by trust funds, and certain proprietary receipts such as rents and royalties from outer continental shelf lands.

To identify receipts and outlays for the Retirement Budget, we used those accounts specified in S. 101. We then identified the associated receipt and appropriation accounts.

To identify interest and debt data, we used OMB's Special Analyses, Budget of the United States Government, 1990. We used budget function 900 (interest) to identify specific accounts.

The operating portion in S. 101 includes all receipts and outlays not classified as retirement or interest. We allocated outlays into the three categories of entitlements, defense, and other government.

We used the "CBO Revised Baseline for FY 1989-1994, Entitlements and Other Mandatory Spending" to determine which accounts should be classified as entitlements. We determined which accounts should be classified as defense by using the defense budget function 050. The other government outlays category consists of all remaining outlays not classified as entitlements or defense.

We used the following publications to obtain more specific information about various accounts and more detailed information concerning the categorization of accounts in S. 101:

APPENDIX VI

APPENDIX VI

OMB Publications:

Budget of the United States Government, 1990.

Budget of the United States Government, 1990--Appendix.

Special Analyses, Budget of the United States Government, 1990.

CBO Publication:

The Economic and Budget Outlook: Fiscal Year 1990-1994.

Treasury Publication:

United States Government Annual 1988 Report: Appendix.

APPENDIX VII

APPENDIX VII

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Split-Level Government

IN 1983 the decision was made to begin the buildup of an enormous surplus in the Social Security trust fund to finance benefits when the baby boomers retire in the next century. The surplus has since begun in some ways to distort the government accounts by masking the deficit at which the rest of government is running.

Now Congressional Democrats propose to cure that defect by excluding Social Security from the deficit calculation entirely. They say their purpose is partly to "protect" future Social Security benefits by walling the trust fund off from the government's other financial problems, partly to expose the full extent of those problems and increase the pressure to address them. The Gramm-Rudman rules now call upon the president and Congress to reduce the budget deficit to zero by 1993, counting the Social Security surplus. The Democrats would reduce it to zero by 1997 *not* counting the surplus. Instead of a balanced budget by means of the surplus, they would mandate the balance *and* the surplus.

To some extent this is the usual one-upmanship associated with the symbolic act of raising the debt ceiling to cover past deficits, which Congress must reluctantly do again this month. But obscure though it sounds, the partly showy plan has important substantive implications as well. In some respects it is a good but in others a very dangerous idea.

The Democrats would push the government, all accounts included, toward a budget surplus in the 1990s. That would instantly raise the lagging national savings rate, reduce dependence on foreign loans and allow the Federal Reserve Board to lower interest rates—all steps toward economic health. It would also be demographically prudent: if the government will have to increase the national

debt to pay benefits when the baby boomers retire, the best way to prepare is to reduce the debt through a surplus now; that's how best to "save" and invest the Social Security surplus.

The proposal would also have broad distributional effects. Currently the regressive Social Security tax is being used to finance the general run of government. The Democrats, by keeping separate books, would step up pressure to raise non-Social Security taxes or cut non-Social Security costs. That would sharpen the choices if the president persists in resisting a tax increase, and although some cherished domestic as well as defense programs would be exposed, the Democrats are willing to take the chance.

But the balkanization has disadvantages as well. It sets a bad precedent; there are other trust funds and powerful interest groups in the wings, and the more things the government lets off-budget the less able it is to measure and control its impact on the economy. By freeing the Social Security surplus from fiscal restraints, the Democrats may also expose it as much as protect it; members will be greatly tempted and much pressured to spend part of the surplus in the form of Social Security tax relief or benefit increases.

The opposite is also true: if ever the time does come to reduce the deficit, it will be that much harder to extract a share from the fifth of the budget represented by Social Security (preferably by increasing the share of benefits subject to income tax). Other programs and sectors of society are thus likely to be squeezed harder in ways that may be unfair. In creating a split-level government, the Democrats need to be careful lest they box themselves in.

[From the Journal of Commerce, Oct. 18, 1989]

JAPAN NEEDS ITS OWN SUPER 301

(By Mototada Kikkawa)

Japan should have a tough retaliatory measure ready if the Bush administration invokes sanctions against its products. A Japanese Super 301 that would cut funds to the U.S. Treasury is just the ticket.

In May, U.S. Trade Representative Carla Hills named Japan a country with unfair trading practices under the 1988 U.S. Omnibus Trade and Competitiveness Act. Targeted for corrective action were satellites, supercomputers and wood products.

The law requires Japan to hold talks with the United States on ending these practices over the next 12 to 18 months. If Washington is not satisfied with the results, it may impose sanctions on Japanese companies.

The United States seems irrationally threatened by Japan's economic prowess. One American journalist has even advocated "containment" of Japan, equating this country with the Soviet Union during the height of the Cold War as a menace to the West.

Imbalances and tensions inevitably arise when one country outperforms others in the global marketplace. Japan has accumulated surpluses that might be destabilizing in nature. Yet if your trading partners deny our legitimate presence in world markets, we must reconsider our assumptions about economic rationality.

We should not add to the acrimony by overreacting to such terms as "unfair" and "sanctions." An appeal to the General Agreement on Tariffs and Trade, which the Japanese government is considering in response to Ms. Hills' action, should not be an emotional counterstrike.

Japan needs an effective bargaining chip against unilateral U.S. moves. I think we have it in the financial markets.

Institutional investors in Japan have poured hundreds of billions of dollars into the United States by purchasing U.S. Treasury notes and long-term government bonds. This flow has continued despite the dollar's sharp fall in value against the yen since autumn 1985.

Japanese capital has helped to bankroll the Reagan and Bush administrations, both beset by enormous trade and budget deficits. This money has sustained U.S. economic expansion, warding off a recession.

The continuing purchase of U.S. Treasury bonds by Japanese life insurance firms, trust banks and securities houses, especially in the face of exchange losses on the order of \$35 billion due to the dollar's depreciation, is a form of financial aid to Washington. Investors also recognize that the value of dollar-denominated bonds may drop further.

But this is rarely taken into account in bilateral trade talks. The emphasis is always on goods—cars, videocassette recorders, oranges and beef. Yet financial investment is just as important.

To ensure that Washington appreciates this fact and, more importantly, to enhance Japan's bargaining power, Japan should pass an Omnibus Foreign Economic Relations Law.

The key provision would adjust capital flows in response to U.S. measures against Japan. Imposition of trade sanctions, for example, might automatically trigger a 20% slash in Japan's purchase of Treasury notes.

The law would enable Japan to use its funds as leverage in future negotiations. It needs a counterpunch, because the United States apparently is determined to be even more hard-nosed and arbitrary.

Japan lives by trade. A legal shield against Super 301 would be good insurance.

Some Japanese will reject this proposal on the grounds that it violates free market principles and will infuriate the Americans. But a Japanese trade act would be for defense only, a deterrent to give our negotiators more clout at the bargaining table.

We might never have to retaliate, but the law would be available just in case Washington launches its Super 301 missiles.

